Doing Business In Romania: A Country Commercial Guide for U.S. Companies

Chapter 1: Doing Business In Romania

Market Overview

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Romania's blossoming market offers many unique advantages, not the least of which is its geographic location. Some of the other characteristics Romania offers include:

- A large domestic market of 22 million people (second largest in Central Europe);
- 37 million acres of arable land;
- Excellent geographic location at the cross-roads of traditional commercial routes, ideally situated for the transport of goods transiting between the Caspian Sea, Black Sea and Western Europe;
- Extensive maritime and river navigation facilities;
- Free zones and shipyard facilities;
- Six international airports;
- Nationwide electric network connected to the main European networks;
- Nationwide fiber optic telecommunication network with large digital capacity integrated into the European optic cable system via satellite, as well as mobile telecom networks;
- A highly developed industrial infrastructure, including oil and petrochemicals;
- A skilled labor force trained in technology (almost 50,000 specialists) and engineering, offering competitively low wages;
- A wide range of natural resources, including fertile agricultural land, coal, oil and gas, and attractive tourist sites;
- Diplomatic relations with 176 countries; member of the UN, NATO and numerous other international organizations;
- Functioning Market Economy recognized by European Union (EU) (November 2003) and the U.S. (March 2003); and
- Slated for EU membership in January 2007, pending fulfillment of key reforms.

While state-owned companies still produce 29.2% of Romania's GDP, efforts are underway to privatize and restructure several strategic sectors such as defense and mining, as well as the most important of these the energy sector. The privatization of several companies in the energy sector was either completed or launched during 2005. The Romanian government privatized the national oil company Petrom, when it was sold to the Austrian oil company OMV. Four electric energy distribution companies: Electrica Dobrogea and Electrica Banat were sold to the Italian energy operator ENEL, Electrica Moldova to E.ON Energie of Germany, and Electrica Oltenia to CEZ of the Czech Republic. Privatization of natural gas distribution companies progressed with the sale of Distrigaz Nord to E.ON Ruhrgas of Germany and Distrigaz Sud to Gaz de France. The

GOR also plans a USD 10 billion upgrade for the energy sector over the next two decades to increase energy output. Romania is taking part in two international projects: a natural gas pipeline as an alternative source of gas for Romania and Europe, and an oil pipeline which will bring Caspian oil to the European market.

Many U.S. firms are firmly engaged in telecommunications, electronics, food industry, commerce, forestry and mining sectors. By the close of September 2005, U.S. direct investments in Romania stood at USD 786.8 million, making the U.S. the sixth largest investor in Romania. The total cumulative stock of foreign direct investment (FDI) in Romania between 1990 and September 2005 amounted to USD 14,817.5 million, with a FDI per capita of an estimated USD 686.00. Approximately 4.2 percent of Romanian exports are destined for the United States.

In 2005, the relationship between the U.S. and Romania continued to strengthen as evidenced by a high level official visit by Secretary of State Condoleeza Rice to Bucharest, as well as visits to the United States by Romanian President Traian Basescu and the Minister of Economy and Commerce, Ioan Codrut Seres.

Market Challenges

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Despite impressive economic expansion, Romania must continue to move forward with reforms ensuring greater legislative and economic predictability in order to maintain a competitive edge over its Eastern European neighbors in terms of attracting FDI. The current government, which took office in December 2004, won on a campaign platform of curbing endemic corruption and providing a level playing field for all companies, foreign and Romanian alike. The GOR has been successful in putting a stop to the practice of government subsidies and acceptance of tax arrears, including debt rescheduling, debt-for-equity swaps and outright forgiveness, and has begun collecting arrears on the healthcare budget. This practice had in the past enabled state-owned enterprises or companies, linked to well-connected Romanians, to avoid bankruptcy while providing them with an unfair competitive advantage over foreign investors.

The business sector in Romania still requires improvement in the following areas:

- Ending systemic corruption, especially high level corruption related to business practices which bleed the government of funding for public programs such as health care and accentuates the division between wealthy and middle class Romanians;
- Eliminating cumbersome, non-transparent bureaucratic procedures and “red tape” that add to the delay of business startups and increase operational costs;
- Abolishment of the so-called “silent approval” legislation, which allows approval of applications within a set deadline unless explicitly denied and instead begin consulting both foreign and domestic investors on proposed legislation that directly effects business or investment;
- Bringing an end to frequent changes in economic legislations and uneven or delayed implementation of existing laws;
- Removing discriminatory tariffs on non-EU imports;
- Continuing tax reform, which began in 2005 with the initiation of the 16% flat tax on incomes and profit, by gradually lowering payroll taxes;

- Improving law enforcement and strengthening rule of law and the Romanian judicial system;
- Enforcing intellectual property rights;
- Further revising the labor code, which inhibits labor market flexibility and the creation of jobs.

While foreign investment is on the rise, the slow rate of progress in implementing the above-mentioned steps has prevented Romania from reaching its full potential and hampered domestic investments, especially by small and medium enterprises. As Romania accelerates preparations for full accession to the European Union, the business climate in Romania is expected to continue to improve and the pace of investment in infrastructure will increase. Given Romania's receptivity to American-made products and services, the U.S. should not only maintain but improve the market share it enjoys in the Romanian economy.

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The strongest areas of opportunity for U.S. exports and investment potential include information and telecommunication technology, energy, construction, environmental technology, automotive after market sales, defense, safety and security and franchising.

Market Entry Strategy **Return to top**

Investors are cautioned to exercise due diligence before engaging in green field or brown field projects, and to undertake their own thorough independent investigation. Engaging good local counsel with solid knowledge of Romanian legislation is critical to success in the market. Prospective investors should exercise due diligence on state aid implications of potential deals with the GOR. Finding a local joint venture partner, agent or distributor is definitely the key to success in the Romanian market.

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Chapter 2: Political and Economic Environment

Romania has made a slow and painful transition towards a market economy since the revolution of 1989. This transition was made more difficult by the legacy of the communist regime: centralization, a high degree of bureaucracy, and lack of experience in partial reform measures undertaken in other Central European economies during the 1980s.

The successive governments that ruled the country between December 1989 and November 2004 avoided serious economic reform, fearing “shock therapy” and its anticipated social costs. Reform packages to establish clear restructuring and privatization procedures, eliminate subsidies, establish a more efficient banking system, introduce a modern tax system, and encourage foreign investment all failed, largely due to lack of commitment and follow-through. Lenient government attitudes toward the accumulation of arrears by state-owned enterprises, coupled with inefficient bankruptcy procedures, indirectly subsidized unprofitable behavior, while good corporate governance was undermined by vested interests. An unpredictable investment climate, together with lack of labor mobility and labor legislation that is a hindrance to business, a weak tax base, and high inflation, inhibited private sector growth in the first decade following the revolution.

In spite of these difficulties, and after years of decline, Romania’s economy started an upward trend in 1999. GDP has increased, registering an average annual growth of approximately 5.4%. Industry, services and construction were the main growth factors.

The trade deficit worsened recently due to a surge in imports. As a result, the balance-of-payments current account posted a deficit of, slightly over $5 billion for the first nine months of 2005, up 32.4% against the same period last year.

Romania’s medium and long-term external debt at the end of September 2005 stood at $27.6 billion, 11.2% higher than at end of 2004.

In August 2005, the National Bank of Romania shifted to inflation targeting. The functioning of this monetary policy regime relies largely on anchoring inflation expectations to the inflation target announced by the central bank.

The disinflation process continues and is estimated to decline to 8.5% by the end of 2005, slightly higher than the government’s revised 2005 target of 7.5%. The rate still remains high by EU standards. Official Forex reserves started an upward trend. By the end of September 2005, the National Bank of Romania’s foreign exchange reserves reached $21.6 billion, including gold reserves.

A pro-business government took office in December of 2004 and has created new perspectives for an improved business environment in Romania. The new government introduced a flat tax of 16% on corporate profits. Meanwhile, it hopes to ensure transparent legislation regarding investments, based on non-discriminating access to the market in all sectors of the economy.

Romania also concluded a stand-by agreement with the IMF in October 2003, the first success after five previous failures since the fall of communism in 1989. However, the recent 2005 IMF mission to Romania concluded that the agreement was off track, and the policies pursued by the government were not in line with the objectives of the stand-by agreement. Despite these conclusions, the agreement remains in place until July 2006. The IMF remains open to further discussions and consultations.

Fitch and Standard and Poor have recently upgraded Romania's credit ratings, while Moody's has re-affirmed them.

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

http://www.state.gov/r/pa/ei/bgn/35722.htm

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Chapter 3: Selling U.S. Products and Services

Using an Agent or Distributor **Return to top**

Agents, distributors and joint venture partners can contribute significantly to the success of a foreign company in the Romanian market by considerably shortening the entry time and strengthening market position. Romanians tend to be well educated, speak foreign languages (the majority speak English as a second language), have a good understanding of technical matters, and can rapidly master new techniques with minimal training. The U.S. Commercial Service, through its International Partner Search and Gold Key Services, can help new-to-market U.S. companies find experienced local companies willing to act as agents, distributors or representatives (http://www.buyusa.gov/romania/en/international_partner_search.html and http://www.buyusa.gov/romania/en/gold_key_matching_services.html).

The appropriateness of a potential Romanian partner can be evaluated by consulting the Ministry of Justice's Trade Registry (http://www.onrc.ro/english/services.php), which, for a moderate fee, will provide information from its database. The National Bank of Romania also provides information regarding a firm's indebtedness ratios and payment history. The Ministry of Finance releases data on companies with overdue debts and taxes. U.S. companies should strongly consider using the International Company Profile service offered by the U.S. Commercial Service (http://www.buyusa.gov/romania/en/international_company_profile.html).

Establishing an Office **Return to top**

The steps to open a local office in Romania are the following:

1. Chose the type of company

General Partnership (SNC): A general partnership can involve two or more partners. The partnership relationship is based upon a contract, and any person who is able to enter into a binding contract may enter into a partnership. The parties must register their partnership with the National Trade Registry Office in the Ministry of Justice.

Limited Partnership (SCS): As with other jurisdictions, a limited partnership consists of one or more general partners, who manage the business of the partnership, and one or more limited partners who contribute capital (money or other property) to the partnership, but do not participate in its management. Generally, limited partners are not liable for the debts and obligations of the partnership beyond their contributions to the registered capital.

Joint-Stock Company (SA): A joint stock company is a limited liability corporation with registered capital of at least 25 million ROL and at least five shareholders. Shares can be nominative shares or bearer shares, and can be freely traded or pledged. A joint stock company may be set up privately or by public subscription. In the case of a company established on a private basis, there must be a Memorandum of Association. At the time of registration of the company, each shareholder must pay at least 30% of his/her portion of the registered share capital, with the remaining 70% paid within a maximum of 12 months.

Limited Partnership by Share (SCA): The capital is divided into shares and the obligations are guaranteed by the capital and by the unlimited and joint liability of the general partners. The limited partners are liable only for the payment of their shares.

Limited Liability Company (SRL): A limited liability company is a company formed by a limited number of partners (no more than 50). The registered capital of a limited liability company cannot be less than 2 million ROL. The registered share capital of a limited liability company is normally divided into shares with a registered value of not less than 100,000 ROL each. Shares cannot be freely traded, making limited liability companies similar to what are known as private companies in other legal systems. Shares of these companies cannot be pledged as collateral for loans.

Representative Offices: Foreign companies may open representative offices in Romania following registration with the Department of Foreign Trade in the Ministry of Economy and Commerce. Representative offices cannot carry out commercial activities on their own behalf, but are entitled to promote and supervise the business of their parent organizations. There is an annual licensing fee of $1,200.

Branches: Foreign companies may establish branches in Romania. They must be registered with the appropriate trade registry, relative to the location of their office.

Economic Interest Group (EIG): An EIG is an association of not more than 20 members, which is established for a specific period of time to promote and develop its members' activities. EIG members share unlimited liability. EIGs may not own shares in one of their member companies and may not issue shares or other negotiable instruments.

European Economic Interest Grouping (EEIG): Unlike an EIG, an EEIG may be established for an indefinite period of time, and while it may be set up in any EU member state, it may function in Romania only as a Branch or Representative Office.

2. Headquarters

U.S. companies are required to have as a headquarters a real location (not a postal address as in the U.S.) that is the property of one or more partners/shareholders or are in their use.

3. Name of the company

The company's name is registered within the Trade Registry under the jurisdiction of which the company is to be located.

4. Authenticated constitutive documents

General partnerships and limited liability partnerships are set up through a contract of company. Joint-stock companies, limited partnerships with shares and limited liability companies are set up through a contract of company and articles of incorporation. The signatories of the articles of incorporation are considered founders. The company must have a "Constitutive Document," (Articles of incorporation) which sets the rights and obligations of the shareholders, the object of activity of the company, the quorum required for the adoption of different resolutions, the dissolution procedure, and so forth.

5. Company's account

The company account is open on the registered name for depositing the authorized share capital, depending on the chosen form of business organization starting with minimum capital of RON 200 (about $60) for a limited liability company.

6. Other required legal documents

Other documents are required, such as fiscal records.

7. Submission of the complete dossier to the One Stop Office

Once the dossier is complete, it is submitted to the One Stop Office in the proper jurisdiction.

The forms of business most commonly used by foreign investors are limited liability company (SRL), the joint stock company (SA) and the branch of a foreign parent company. Bank and insurance companies can only be organized in the form of joint stock companies. Representative offices are often used as a market entry technique, allowing for an assessment of existing opportunities before making a more substantial commitment to Romania.

Franchising **Return to top**

Franchising regulations in Romania are much the same as in other countries, basically granting the franchisee the right to operate or develop a business, product, technology or service. The contract, generally called a Franchising Agreement, reflects the interests of the members of the franchise network, and protects the franchisor's industrial or intellectual property rights by maintaining the common identity and reputation of the franchise network. The franchising agreement must define, free of any ambiguity, the obligations and liabilities of all of the parties, and must contain the following elements: object of the contract, rights and obligations of the parties involved, financial clauses, contract duration, clauses related to modifying, prolongation, and canceling of the agreement. The growing number of franchisers is indicative of the significant potential of the franchise sector. In 2000 there were 18 franchise chains in Romania, by 2003 the number grew to 60 franchises, and in 2004 to 124 franchise networks. At the close of September 2005 the total number of franchises in Romania totaled 210. The Franchise Networks Association of Romania lists the companies operating franchises in Romania (http://www.arfr.ro/anuar.asp).

American franchises in Romania

The franchise system has been slow to develop in Romania due to the large amount of initial capital needed for that start up.

Nevertheless, McDonald's, Pizza Hut, KFC, Shell, AGIP, Candy Bouquet and the Romanian-American oil company Rompetrol currently have franchisees in Romania. Other American franchises present in the Romanian market include:

- Howard Johnson Grand Hotel Plaza, a $25 million investment.
- Four Star Pizza, with five operating units in Romania. The targeted locations are the cities with over 130,000 inhabitants. The franchise fee is EURO 3,000.
- Daylight Donuts, with 3 operating units in Romania. The franchise fee is EUR 12,000 and a total investment of EURO 30,000-35,000.
- Coca Cola
- Pepsi Cola
- Pizza Hut, with an investment ranging between USD 30,000 and USD 100,000. The operational units are located in Bucharest (3), Constanta (2), Cluj, Bacau, Jassy, and Craiova.
- Ruby Tuesday's
- American Life Insurance Company
- Hertz
- Budget
- Pizza Inn
- Gloria Jean's Café, with an investment in Romania was of EURO 300,000. The units are located in City Mall Bucharest, Constanta, and another in Timisoara is currently under development.
- Computer Troubleshooters. This firm entered the Romanian market in the spring of 2005 through a master franchise contract. The Romanian master franchisee has the right to develop the network in Romania and to expand it in neighboring countries as well. CT is ranked second after Entrepreneur worldwide in the computer service field.

Direct Marketing **Return to top**

Direct marketing is increasing, thanks to advantages offered over traditional types of advertising, given the peculiarities of the Romanian market (competition in niche marketing, difficulties in measuring the results of traditional advertising campaigns, mounting costs, need to reach geographically remote segments, etc.). Several companies specialize in providing direct marketing services to multinational firms, as well as political parties. Advertising firms often subcontract direct marketing services.

Joint Ventures/Licensing **Return to top**

U.S. companies may enter the Romanian market as partners with Romanian counterparts or may operate 100% foreign-owned companies. Many foreign companies involved in local manufacturing do so under joint-venture agreements. The main advantages offered by joint ventures include quick market access utilizing an existing infrastructure and knowledge of the local business environment. Disadvantages of joint ventures include the potential acquisition of excess personnel and the possibility of not having complete control of the business.

Selling to the Government **Return to top**

Public procurement takes place by means of the following methods:

Open Auction: Allows any vendor to make an offer;
Limited Auction: Candidates selected in the first round are invited to make subsequent offers;
Negotiation: Can be competitive or sole source; competitive negotiation is the procedure by which the contracting authority consults and negotiates the contract, excluding the price, with multiple providers. Sole source negotiation is the procedure by which the contracting authority consults and negotiates the contract, including the price, with only one provider.

The contracting authority also has the right to organize a *jury contest*. This procedure allows the contracting authority to acquire a plan or a project (especially in the fields of public planning, urban design, or architecture) via jury selection. The projects/plans remain anonymous until the evaluation by the jury is completed.

A company may not participate in any procedure of public procurement if it is in bankruptcy or liquidation, or provides inaccurate information in the documents presented. The contracting authority has the right to request documentation from companies which prove their eligibility to bid. In the case of foreign companies, the contracting authority will accept documents considered sufficient for proving eligibility in the resident country. Within 30 days of awarding the contract, the contracting authority must publish (in the Official Gazette of Romania, Part VI – Public Procurement) an announcement awarding the contract.

In case of projects that are financed by international financing institutions, such as EBRD, EIB, World Bank and the European Union, international competitive tenders are organized in accordance with the institutions' rules. U.S. companies are not eligible to bid for EU financed projects.

It should be noted that some U.S. bidders may find the public procurement process non-transparent, with tenders awarded on political or other factors outside the scope of the announcement.

Distribution and Sales Channels

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Distribution of industrial goods in Romania is similar to most European countries. However, retail trade is still quite fragmented with many small independent outlets. Retail outlets include specialized shops, supermarkets, hypermarkets, cash and carry, department stores, gas station convenience stores, kiosks, street vendors, open-air markets and wholesale centers.

The modern-day retail system appeared in Romania in the early 1990s – specifically in 1991 when the first La Fourmi supermarket was opened in Bucharest, quickly followed by other supermarket companies. Specialized shops have developed rapidly. They usually are located in large cities, offer a modern shopping experience, and utilize computer-controlled inventory and sales. Examples include Leonardo and Fiorangello for shoes, Paneuro for automotive components and Neoset for furniture. The number of specialized shops is expected to increase.

Foreign supermarket companies have entered the Romanian market. The first foreign company to enter the market was the Metro Cash & Carry chain in 1996. The Billa and Gima supermarket chains in 1999, Selgros in 2000 and Carrefour and XXL in 2001, followed by the Metro Cash & Carry Chain[illegible] the 1996-2003 time frame the principal retail companies in Romania invested EUR [illegible]0 million and investments were projected to reach EUR 1.25 billion by the end of 2005. Half of these investments were made in the capital city of Bucharest.

Shopping malls have started to emerge in Romania. The Bucharest Mall and Bucharest Plaza most resemble Western-style shopping centers. A third mall has recently opened with a number of much smaller malls appearing as well. Department stores can be found in all large Romanian cities, but due to poor infrastructure, lack of capital and inadequate management, they are generally unsuccessful.

International and regional oil companies are also present in the Romanian retail market, such as Agip, Lukoil, MOL, and the Romanian companies Petrom, recently acquired by OMV, and Rompetrol. They are all considered strong retail traders for fast moving consumer goods because of the investments they have made in their outlets. All are planning further growth.

Although municipalities have tried to reduce their number, kiosks are still the largest retail category, especially for fast moving consumer goods, with approximately 15,000 located throughout the country. Since 2000 there has been an ongoing battle between the major retailers that penetrated the Romanian market in the mid-'90s and the small retail businesses, the so-called "boutique" stores. The struggle for dominance tends to be led by the big retailers, which in 2001 alone experienced an increase in sales by 75% as compared to 2000. This growth reflects a general trend throughout Eastern Europe.

U.S. companies face strong competition from EU countries in the Romanian market. Goods from the European Union enjoy significantly lower duty rates as compared to similar goods from the United States.

Selling Factors/Techniques **Return to top**

Quality, price and payment conditions are critical factors for success in Romania's business environment. The Romanian market, like all former East-European markets, is still cash poor. However, in some market niches – luxury cars, real estate, high-end art and furniture, apparel and cosmetics – catering to a small segment of high-income customers, very expensive products can be sold with relative ease using credit cards, consumer loans, leasing, mortgages, or corporate loans.

Electronic Commerce **Return to top**

In Romania, e-commerce is only now emerging. Major obstacles in developing e-commerce in Romania are low Internet penetration, lack of legislation, limited use of credit cards, and the general social and economic context. On-line stores offer a basic form of e-commerce, with payment made off-line (cash to the supplier, payment order, or post office transaction). Merchandise sold through Romanian e-commerce system consists mainly of low-value items such as books, CDs, toys, artifacts, etc.

Business-to-business e-commerce appears to have better prospects, in part because of easier payment methods. Although very few companies offer their goods and services on the Internet, there are encouraging signs that new companies will adopt e-commerce in the near future. Three main Romanian banks have developed on-line systems that allow e-banking operations in support of business-to-business e-commerce. According to an Economist Intelligence Unit 60-country survey, Romania ranks 43rd in its readiness for e-commerce and its potential for information and communication technology (ICT) integration in the e-business economy. With a total score of 5.2, Romania is ahead of Russia, but behind Poland, Hungary, the Czech Republic, Slovakia and Bulgaria.

B2B websites:

http://www.profitromania.ro

http://index2000.tradeholding.com/default.cgi

http://www.b2b-bestof.com

Most of the large banks offer e-banking to their clients (especially companies). Some also offer Internet banking, as long as they can provide adequate security. The banks made a first step in this direction with BTR-net, a service that does not require dedicated software on the client's computer. Alpha Bank launched its electronic banking service in June 2000. The software selected for the service is Fortis, produced by Credo. The

National Bank of Greece (Bucharest), HVB Bank and ING also offer electronic banking services. In sum, thirty-five banks in Romania offer various e-banking services.

Romania's inter-bank electronic settlement system began operation in May 2005. It is managed by the central bank and Transfond, a company owned by the central bank (one-third) and commercial banks (two-thirds). The electronic settlement system allows payment in real time (seconds) for transfers above ROL 50,000 (about $1.70) and in a few hours for small transfers below that amount, compared to a former average speed of three days. The last module of the electronic settlement system became functional in November 2005 when T-bill transfers were added. Romania's inter-bank electronic settlement system is technically compatible with the international SWIFT and TARGET systems.

The government launched a web-based e-procurement system in 2002. The official site of the system, described more fully in Chapter 7, is http://www.e-licitatie.ro. Government officials are pleased with the results thus far.

Trade Promotion and Advertising **Return to top**

Romania's progress toward a market economy has brought notable growth in the variety and quality of advertising. Total advertising expenditures rose to over $280 million in 2005 (RC), with multinational companies active in the consumer goods sector (non-alcoholic drinks, cosmetics) and mobile communications operators being the top advertisers. P&G was the largest ad spender in Romania in 2004 and the first semester of 2005.

The advertising market in Romania compared with GDP reaches half the level impose by the EU.

Television, which attracts over 85 percent of total advertising expenditures (RC), is the predominant medium, followed by printed media (10%), radio (2%) and outdoor (1%), and other. There are four state-owned national networks, a large number of state-owned local networks, and several privately-owned networks with national coverage (Pro TV, Prima TV, Acasa, Antena 1, HBO, National). Within the first 6 months of 2005, 5 new TV stations were launched. Over 80% of the population watches television daily.

The TV audience (Share %) in Romania (All 4+ national including guest 2004 had the following structure:

- TVR 1 (state-owned) 22.1%
- Pro TV 15.8%
- Antena 1 12.3%
- Acasa 7.4%
- Prima 4.9%
- TVR 2 (state-owned) 7%
- Other channels 30.5%

From Jan to Sep 2005 the audience has changed to the following structure (Shr%):

- TVR 1 (state-owned) 18.8%
- Pro TV 15.8%
- Antena 1 13.4%
- Acasa 8.0%
- TVR 2 (state-owned) 5.4%
- Prima 4.6%
- Other channels 34%

The Romanian press offers a wide variety of national and local daily and weekly newspapers, as well as a large number of magazines and specialty publications (e.g., sports, business, entertainment and family). The best-known English-language business publications are:

- *Quarterly Bulletin* (economic, financing, monetary and credit trend information and statistics), published by the National Bank;
- *Statistic Bulletins* (on various topics), published by the National Institute of Statistics;
- *Romanian Insights* (monthly), published by the Romanian Chamber of Commerce and Industry;
- *Business Review* (weekly), published by Business Media Group SRL;
- *Nine O'Clock* (daily), published by Nine O'Clock Publications;
- *Romanian Business Journal* (weekly), published by Penta;
- *Ziarul Financiar* (daily) published by MediaPro.

Just like other media categories, the OOH market increased in volume stimulated by an increase in advertising expenditures from both traditional advertisers as well as the two major election campaigns between June and November 2004. Therefore, outdoor billboard advertising has grown rapidly and is becoming more sophisticated. Billboard locations are multiplying and backlit and dynamic models are replacing the traditional simple painted billboards. Advertising on public transportation vehicles is also common.

Radio accounts for about 2% of ad spending (RC). There are four national state-owned AM radio networks which target audiences interested in news, culture, music, and programs for young listeners. In addition, there is a national private FM network (Europa FM) and a large number of private FM stations in Bucharest and other major cities, which have a broad audience appeal. The most popular are (according to SAR 2005): Kiss FM, Europa FM, Radio 21 and Pro FM concerning urban areas. About 55% of the population listens to the radio daily.

Most major western advertising companies are represented in Romania. Major agencies with international affiliation include: Ogilvy & Mather, McCann-Erickson, Lowe&Partners (IPG member), Tempo Advertising, Graffiti / BBDO, Saatchi and Saatchi, and Young and Rubicam.

Specialized market testing and market research are available from independent suppliers, both Romanian and international, as well as established Romanian institutes and organizations, such as the BRAT, the Institute of World Economy, the Romanian Chamber of Commerce and Industry (http://www.ccir.ro).

Pricing

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Most prices have been liberalized, with the exception of prices for electricity and gas supplied for domestic consumption for which liberalization has not been completed yet. According to Romania's energy roadmap for EU accession, full liberalization of the energy and natural gas market is to take place by 2007. Product pricing structure is similar to that used in most developed countries: prices are increased by wholesale and retail markups as well as by taxes (especially VAT). Product pricing is influenced by existing competition in the Romanian market, as well as by the liquidity of the market. With respect to common consumer goods, price is sensitive, and competition can be fierce, as local producers compete with products from China, Southeast Asia and Turkey. In the case of higher quality goods, the reputation of brands as well as technical specifications or length of guarantee may determine success in the market.

Sales Service/Customer Support

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The lack of exposure to western practices left a legacy of indifference to after-sales service, which is gradually being changed, at least in the case of large multinationals operating in Romania.

Romanian consumers are more and more sensitive to the quality of after-sales services in making their buying decisions. Legal provisions regarding sales, service and customer support are currently in line with European Union provisions.

Protecting Your Intellectual Property

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As result of persistent problems in the enforcement of intellectual property rights, the U.S. Trade Representative (USTR) kept Romania on its Special 301 Watch List for 2004. High piracy levels continued across all sectors, optical disc piracy grew, and poor border enforcement led to a surge in imports of pirated material. The situation is further exacerbated by the lack of resources dedicated to enforcement. Prosecution of IPR violators is rare, and when cases are adjudicated, penalties meted out are light. No one has gone to jail for IPR piracy.

Due Diligence

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As the Romanian business environment presents its own unique challenges, in addition to standard issues, such as incorporation, obtaining permits, payment of fiscal liabilities, IPR registration, contract preparation, collection or commercial disputes, U.S. companies doing business in Romania are advised to engage local reputable legal counsel.

Romanian law firms are increasing in number and quality; numerous American and other foreign firms are represented, as well, in association with Romanian firms, as required by law.

Romania's contract law is set out in the Civil Code (which follows closely the French Civil Code) and the Commercial Code (which is modeled on the Italian Commercial Code). Generally, the specialized body of law, e.g., the Commercial Code, has precedence over the general body of law, the Civil Code.

Romanian law recognizes the existence of mortgages for immovable property and pledges for movable property. Thus, assets can be pledged as collateral for loans and as guarantees.

To protect the interests of creditors, Romanian law provides for the right to request forced execution against debtors' assets, the right to request the cancellation of legal acts that breach the creditors' rights, the right to request the taking of various measures for the purpose of preserving the debtor's patrimony (e.g., seizure by court order of assets to satisfy a due amount, the right to intervene in trials related to the debtor's assets, etc.), the right to start court actions in relation to certain rights of an inactive or negligent debtor.

Romanian bankruptcy legislation provides creditors the possibility to force insolvent companies to go either into reorganization or liquidation. If a company is able to overcome the incapability to pay its debts, by reorganization, it may not be necessary to go into liquidation. Nevertheless, if the reorganization is not successful, the judge will order the start of the liquidation procedure. Unfortunately, the lack of specialization of judges and lawyers in the bankruptcy field makes it difficult to bring such cases to court, and to obtain consistent outcomes.

Romanian justice continues to be slow and bureaucratic. Therefore, avoiding conflicts of any type is the best policy. It is strongly recommended that sales be based on confirmed irrevocable letters of credit opened with banks that are correspondents of American banks or are confirmed by such banks. Investors should conduct thorough due diligence. When possible, contracts should provide for international arbitration.

The U.S. Commercial Service maintains a list of law and business advisory firms with expertise in both Romanian and U.S. law, which is available upon request.

U.S. companies may also consider using the International Company Profile service offered by the U.S. Commercial Service (http://www.buyusa.gov/romania/en/international_company_profile.html).

Local Professional Services **Return to top**

International Law Firms in Romania:
David Associates
http://www.dalegal.ro
Gide Loyrette Nouel

http://www.gide.com
Haarman, Hemmelrath / Adriana Duncea Law Office
http://www.haarmanhemmelrath.com
Hayhurst Berlad Robinson / Robinson Sidere & Asociatii
http://www.hbrlaw.net
IKRP Rokas & Partners
http://www.rokas.com
Linklaters Miculitii & Asociatii SCPA
http://www.linklaters.com
Nestor Diculescu Kingston Petersen SCA
http://www.nnkp.com
Rubin Meyer Doru & Trandafir SCPA affiliated with Herzfeld & Rubin
http://www.hr.ro
Salans – Moore, Vartires & Associates SCA (former Altheimer & Gray)
http://www.salans.com
Schnecker Van Wyk & Pearson
http://www.investments.ro
Stephenson Harwood (Incorporating Sinclair Roche & Temperley)
http://www.shlegal.com
Voicu & Filipescu SCA in association with Squire, Sanders & Dempsey L.L.P.
http://www.voicufilipescu.ro

Management Consulting Firms in Romania:
Aims Human Capital
http://www.aims.ro
Atlas Consel Organizational Development Consulting
http://www.atlasconsel-consulting.ro/
Nicholson Intl. Romania
http://www.nicholson.com
Euromediterranee Consulting
http://www.euro-mediterranee.ro
Global Business Group
http://www.gbg.ro/center.htm
Haarmann, Hemmelrath & Partner Management Consulting
http://www.hhp.de
KPMG Romania
http://www.kpmg.ro
Roland Berger & Partner
http://www.rolandberger.com
TMI Training & Consulting
http://www.timemanager.ro

Web Resources **Return to top**

Commercial Service Romania - International Partner Search
http://www.buyusa.gov/romania/en/international_partner_search.html
Commercial Service Romania - Gold Key Service
http://www.buyusa.gov/romania/en/gold_key_matching_services.html
Commercial Service Romania - International Company Profile
http://www.buyusa.gov/romania/en/international_company_profile.html
Ministry of Justice's National Trade Registry Office

http://www.onrc.ro/english/services.php
Franchise Networks Association of Romania
http://www.arfr.ro/anuar.asp
Romanian Government
http://www.gov.ro
B2B websites:
http://www.profitromania.ro
http://index2000.tradeholding.com/default.cgi
http://www.b2b-bestof.com
Romanian Government's Web-Based e-Procurement System
http://www.e-licitatie.ro
National Bank of Romania
http://www.bnr.ro
Ministry of Finance
http://www.mfinante.ro
Department of Foreign Trade in the Ministry of Economy and Commerce
http://www.dce.gov.ro
European Bank for Reconstruction and Development-EBRD
http://www.ebrd.com
European Investment Bank-EIB
http://www.eib.org
World Bank
http://www.worldbank.org
European Union
http://europa.eu.int
National Institute of Statistics
http://www.insse.ro
Romanian Chamber of Commerce and Industry
http://www.ccir.ro
Romanian Institute of World Economy
http://www.iem.ro
Office of the United States Trade Representative (USTR)
http://www.ustr.gov

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Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

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Construction Industry

Overview

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	2005	2006	2007
Total Market Size	4,189	4,356	4,574
Total Local Production	2,929	3,048	2,973
Total Exports	293	305	445
Total Imports	1,260	1,308	1,602
Imports from the U.S.	119	124	162

Billion USD; unofficial estimates

The overall construction market value in Romania is analyzed utilizing broad definitions because of the difficulty of obtaining reliable statistical information. According to the Romanian Association of Constructors, in 2004 the value of the domestic construction market was approximately 5 billion Euros (US$6.2 billion). During the first half of 2005, the volume of construction projects increased 8.6 percent in comparison to 2004. By the end of the year, it is expected to reach 5.2 billion Euros (US$6.24). The growth of the market is impressive especially in terms of real value, rather than volume, because of the rising cost of construction materials. Overall, the sector remains one of the most dynamic in the Romanian economy.

Best Products/Services

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Best prospects for such products and services are reflected in residential construction, infrastructure, highway, national road upgrading, urban infrastructure: sewage, water system, ecological landfills, power plant rehabilitation, gas pipeline systems, etc.

Opportunities

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The Romanian construction market is focused on important infrastructure projects (highways, roads, bridges, railways) related mainly to the European corridors IV and IX. An important development is expected for residential and industrial buildings. Romania has 374 houses (dwellings) per 1,000 inhabitants compared with 468 houses per 1,000 inhabitants in EU. In terms of livable area per capita (14.2) square meters), Romania is far from the EU average. Around 4,500 housing units will be developed in Bucharest during the upcoming years. Most will be located in the center and south of Bucharest.
In 2004 the value of the domestic construction market was about $6.2 billion. During the first half of 2005, the volume of construction works increased 8.6 percent versus 2004. By the end of the year, it is expected to attain 5.2 billion euros (US$6.24 billion). The growth of the market is impressive especially in value terms, rather than volume, because of the rising prices for all construction materials. Foreign investors focus mainly on the construction of new office buildings, hotels, shopping areas, and hypermarkets, which have been impressive countrywide. Competition from such investors is increasing also in the residential construction area. The fastest growing segment was residential construction, up 40 percent over a year earlier. However, given its low share in total construction market (only 12 percent), housing construction has a limited influence on the overall dynamics of this market.
Overall, the sector remains one of the most dynamic in the Romanian economy.

Resources

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Romanian Association of Constructors
http://www.araco.org
European Union-EU
http://europa.eu.int

Telecommunications Equipment

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	2003	2004	2005 (estimated)
Total Market Size	2,900	3,350	3,850
Total Local Production	700	850	925
Total Exports	100	200	250
Total Imports	2,300	2,700	3,175
Imports from the U.S.	150	230	250

Million USD; The above statistics are unofficial estimates.

The ICT sector is probably the most dynamic component of Romania's economy, and is receiving priority attention from the government. Over the last 15 years, it has experienced impressive growth, offering Romania the latest technologies in most branches of telecommunications. The fixed telephony market liberalization, as of January 1, 2003 increased the level of competition in the whole sector, which has had positive effects on both the quality and the cost of services.

Best Prospects/Services
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Although faced with strong competition coming mostly from Western European companies, US firms are well represented on the Romanian telecommunications market, especially in wireless, cable, and mobile communications. Best prospects for US exports include wireless communications equipment, cable communications equipment and services, 3G mobile communications (especially CDMA) equipment and services, and Internet services, VoIP included.

Opportunities
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The current situation of the telecommunications market and its main trends indicate that the sector's major procurement efforts during the next years will be related to the following projects:

- Launching of wired-telephony networks following market deregulation;
- Building of four UMTS/3G networks;
- Expansion of the CDMA 450Mhz network;
- Expansion of the SDH network of the National Radio-communications Company (SNR);
- Development of SNR's wireless point-multipoint network in the 26GHz band;
- Modernization of SNR's long, medium, and short-wave transmitters network;
- Upgrading of infrastructure for national TV channels;

- Upgrading cable communications networks to allow the supply of broadband Internet, VoIP, and digital TV;
- Modernization of the infrastructure used by major ISPs;
- Expansion of pilot projects related to the development of e-government (e-procurement, e-tax, e-invoice, e-referendum, e-post, info-kiosk, etc.);
- Implementation of IT projects in public administration and education.

State-of-the-art equipment for these projects will be mostly imported.

Resources Return to top

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Ministry of Information Technology and Communications: http://www.mcti.ro

Professional web sites:
National Radio-communications Company (SNR)
http://www.snr.ro
Agora Media
http://www.agora.ro
OnLineMedia
http://www.onlinemedia.ro
Microsoft
http://www.microsoft.com
XtremPC
http://www.xtrempc.ro
NetReport.ro
http://www.netreport.ro
PCMagazin
http://www.pcmagazin.ro

Automotive Aftermarket

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	2003	2004	2005 (estimated)
Total Market Size	674	1,078	1,725
Total Local Production	1,677	2,683	4,293
Total Exports	360	575	695
Total Imports	240	401	530
Imports from the U.S.	2	3	3

Million USD; The above statistics are unofficial estimates.

An increasing number of foreign companies have decided to manufacture auto parts for Romanian cars. This reflects the latest trend in the automotive industry whose growth has shifted from mature markets to emerging markets. OEMs and suppliers tend to move production to Eastern Europe. The rationale behind this decision is multi-fold: attractive cost of the labor force, a highly qualified and English speaking workforce, and flexible work schedules. Also, the privatization of the local companies streamlined the activities and led to the modernization of those with a competitive edge and the conversion to new companies for the unprofitable ones.

Under these conditions, the industrial output increased by 25% over the period 2001-2004 against 2000, which represented an annual average rate of increase of 5.8%. If in 1991 there were only 39 production units, the number increased to 376 in 2002 (eight fold increase) to get to 424 at the level of 2004 (nine fold increase). The turnover in RON doubled over a two-year span (2002-2004), from 4.11 to 8.04 billion. This increase also reflects a better efficiency of the sector based on modern automated technologies.

Four companies are producing passenger cars and commercial vehicles in Romania: S.C. Automobile Dacia Group Renault S.A. in Pitesti, SC Daewoo Automobile Romania SA in Craiova, S.C. Aro Campulung privatized with Crosslander, and Roman Brasov, the truck manufacturer. Besides these major vehicle manufacturers there are more than 250 companies, manufacturers of auto parts, sub-assemblies and components, most of them come from the SME sector, which have evolved as a result of the restructuring process, the privatization with external companies, or through the relocation from abroad of certain manufacturing units, as well as through green-field investments.

The main activity of these auto parts manufacturing companies is related to the manufacturing of metallic, plastic and rubber components, in addition to the electrical and electronic components production which in most cases is based on inward processing (labor force exclusively).

Romanian auto parts manufacturers resorted to international outsourcing and subcontracting practices. Thus, since 1999, when Dacia Automobile was bought by Renault (France), its facility has constantly expanded its outsourcing and subcontracting practice worldwide, though national suppliers have continued to play an important role. The manufacturing of the latest model, the Logan is such an example. The Logan, which has turned out to be a big success, ultimately required 21 Romanian suppliers and 21 foreign suppliers who manufactured parts for Dacia-Renault and together invested $133 million in Romania. Of the foreign companies, 14 are located in the Dacia Pitesti Industrial Park. The Romanian suppliers are not 100% local companies; they rather consist of joint venture partners, in which the Romanians provided the production halls, utilities and engineering services, whereas the major brands from the international car manufacturing industry brought in their know-how and raw materials. These JVs produce products for both the domestic market (mostly for Renault-Dacia) and the overseas markets.

The main investors in the automotive industry are: Renault-Dacia, INA Schaeffler, Saint-Gobain, Montupet (aluminium parts), Ruwel AG (circuit boards), Auto Chassis Int'l, Yazaki, Pirelli (Cord Romania SRL-JV with Continental), Thyssen Krupp, Continental AG, Leoni Wiring Systems, Lisa Draxlmaier, Coficab (auto components), Coindu (leather and synthetic covers), BOS Automotive, Sumitomo Electric Ltd., Faurecia (part of Peugeot), Delphi Packard (US), Eybl Int'l AG, Johnson Controls (US), Magneto Wheels, Dura Automotive Systems (US), Brandl GmbH, Honeywell Garrett (US), Takata Petri, TRW Automotive, Kromberg & Schubert, Autoliv, Valeo. There are three or four investors exceeding $120 mil: Michelin, Continental, Lisa Draxlmaier and, more recently INA Schaeffler from Germany, while Montupet from France is preparing to come on board. There are a further dozen investors with over $12 mil. (soon to be joined by others) and a slightly higher number of smaller local investors.

An overview of Romanian foreign trade in the automotive area shows massive imports of cars, as well as increased exports of auto parts. This includes cabling, steering wheels, car upholstery, connectors, tire cords, and generally any part that involves an appreciable amount of labor, or anything that is unprofitable to produce in developed countries. Fortunately there are some exceptions, such as the investment of the Siemens Group in Timisoara, which produces automotive software. According to data from the Association of Producers and Importers of Automobiles (APIA), 30% more automobiles were sold in the first nine months of this year than the year before, while imports have increased by 33%.

In 2004, the net imports of cars and other vehicles exceeded exports by $784 million. The deficit increased to $1,067 million in the first three quarters of 2005. Imports of automobiles increased by 91% compared to the same period last year, to $1.6 billion, while exports increased by 45%. Last year's exports of auto parts amounted to $382 mil., only $126 mil. more than imports. In other words, Romania registered a $0.78 billion surplus last year in terms of automobile trade, and a surplus of only $0.12 billion for parts.

Best Prospects/Services Return to top

The following are being identified as best prospects for the U.S. companies, exemplified by companies already active on the Romanian market:

- Electric and electronic systems

Lisa Draxlmaier (Germany), Delphi Packard (U.S.), Kromberg& Schubert (Germany), Alcatel (France), Lear Corporation (U.S.), Alcoa Fujikura Inc. (U.S.-Japan), Leoni Wiring Systems (Germany), Sumimoto Electric Wiring Systems, Yazaki Corporation (Japan), Valeo (France), Siemens Automotive (Germany), Ruwel AG (Germany)

- Heating /Air conditioning Systems

Continental (Germany), Valeo (France)

- Exhaust systems

(U.S.), Cortubi, Honeywell Garett (U.S.)

- Plastic and rubber components

Baumeister&Ouslet (Germany), Solvay-Inergy (Belgium), Phoenix AG (Germany), Dow Automotives, AD Plastik (Croatia), Simoldes Plasticos (Portugal), BOS Automative

- Gear

Daimler Chrysler (Germany), DCI Wallbridge (U.S.)

- Chairs

Johnson Controls (U.S.), Faurecia (France)

- Tires, Steel Cables

Continental (Germany), Michelin (France), Pirelli (Italy)

- Steering Wheels

Takata Corporation (Japan), Eybl International AG (Germany), Momo (Italy)

- Wheels

Magneto Wheels (Italy)

- Bearings

Koyo Seiko (Japan), SNR Roulments (France), Ina Schaffer (Germany)

- Springs

Thyssen Krupp (Germany)

- Chassis

Auto Chassis International (France), Dura Automotive System (U.S.)

Application of the ISO 9000:2000 and ISO TS 16949 and ISO 14000 related to the environment management system is considered a plus for companies interested in penetrating the sector.

Opportunities

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The auto parts industry has a favorable perspective due to the growth of the domestic and external markets. The investments made by the multinational companies, as integrators of products, have fostered increased competition at the national level, stimulating improved quantities and quality of production allowing the overall Romanian automobile sector to become more competitive in the world market. A new ascending tendency, towards for the creation of clusters of companies has been reported as well as and the addition of new Romanian companies to the networks of suppliers for multinationals.

Once Romania joins the EU, the Romanian market might be facing a boom in second hand car imports, as all restrictions on imports of used European cars will be lifted. This could result in the increase of auto parts production. To regulate the second hand vehicle market the Association of Car Manufactures and Importers (APIA) will design a catalogue of average prices for used cars to create standards on the market.

Resources

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Association of Producers and Importers of Automobiles (APIA)
http://www.apia.ro
Association of Car Manufactures
http://www.acarom.ro

Electrical Power Systems

Overview Return to top

	2003	2004	2005 (estimated)
Total Market Size	530	575	598
Total Local Production	190	205	213
Total Exports	30	31	32
Total Imports	370	401	417
Imports from the U.S.	120	128	133

Million USD; The above statistics are unofficial estimates.

In 2005 (the first nine months), Romania produced almost 43 billions kWh electricity, which is 1.5 billions kWh more than the similar period of 2004. 54.18% were produced by thermal power plants, 36.54% by hydropower plants and 9.26% by the Cernavoda nuclear plant, and 11.9% by other producers.

The Romanian government plans to increase power output by upgrading existing facilities. Total investment over the next two decades will amount to $10 billion. Examples of some investments are the completion of the second unit of Cernavoda nuclear plant (over $1.4 billion), the completion of 21 hydropower plants ($1 billion), the privatization of electricity distribution ($1 billion), and the rehabilitation of thermal power plants.

TERMOELECTRICA SA is the main Romanian power and heat producer. Thermal power generation is based on fossil fuels: lignite, hard coal, natural gas and liquid fuel. Termoelectrica is a state-owned company under the authority of the Ministry of Economy and Commerce. The company with a total installed capacity (2004) of 5520 MW includes the following subsidiaries: Electrocentrale Bucuresti S.A. (2008 MW), Electrocentrale Deva S.A. (1260 MW), Electrocentrale Galati S.A. (535 MW)

TURCENI SA, ROVINARI SA, CRAIOVA SA are the main energy complexes based on thermal power – mining exploitation resulted from 2004 reorganization and restructuring of the power generation lignite-based sector.

HIDROELECTRICA SA is responsible for hydropower production, managing 350 hydropower plants and pumping stations with an installed capacity of 6,260 MW and with power generation in an average hydrological year of 17,298 GWh.

NUCLEARELECTRICA SA is responsible for nuclear power generation and nuclear fuel production and is the state-owned operator of the Cernavoda nuclear power complex. Cernavoda has a gross output of 706 MW. A consortium of Atomic Energy of Canada and Ansaldo of Italy, incorporating some American equipment, built the first unit, Cernavoda 1, a CANDU reactor with a capacity of 750 MW. Cernavoda 1 now accounts for about 10% of electricity production in Romania. The other two units are under construction.

TRANSELECTRICA SA, the electricity transmission company, has 8 transmission stations. Transelectrica is responsible for safe and efficient operation of the power system and the wholesale electric market.

EELECTRICA SA, with 8 subsidiaries and 858 substations, is responsible for power distribution. The company has a portfolio of clients of about 8.5 million, out of which 7.9 million households and 0.6 million companies.

Best Prospects/Services

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Major rehabilitation and privatization programs of the Romanian energy sector scheduled to take place in the next years will lead to inctreased exports thereby stimulating the demand for increased energy products and services. The best prospects for U.S. companies are exports of electrical power systems and activities related to energy network design and construction, operation (including transportation, transmission and distribution), maintenance and repair, and installation and upgrading, wholesale customer activities (metering and billing, energy management), trading, brokering and sales activities, commodity and risk management, advisory activities, research and development.

Opportunities

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Based on the objective of fully liberalizing the energy market during the next few years, several important developments have been taken in this sector such as the implementation of a deregulation process, based on the need of setting more market principles and free competition, as well as by promoting a sustained privatization and modernization process.

TERMOELECTRICA SA

For the power plants in the structure of Termoelectrica, the total investment effort for the period 2003 -2015 is estimated to be at the level of $1,026 billion, out of which 28,9% should be spent by the year 2007. The investment for upgrading the boilers and electro precipitator (solid emission) represents 8% of the total amount, upgrading of the burners represents 6%, while desulphurization represents the other 86% of the total amount.

Structures type IPP (independent power producer), – green field investments engaged with private investors are envisaged for the thermal sector.

The privatization process for the energetic complexes TURCENI, ROVINARI and CRAIOVA is on-going. The process is carried on with the assistance of Deloitte Central Europe Ltd. In 2006, the consultant will submit the privatization strategy to the Romanian Government for approval.

HIDROELECTRICA SA

Hydropower plants where construction is at least 70% complete will be a priority in the next few years. Other plants (with completion levels of 20-50%) will either be privatized, or included in joint-stock companies with private partners. According to official estimates, around $1.6 billion in investment is necessary to add approximately 900 MWh of hydropower capacity.

Romania has set a target to attract private capital by setting up structures of independent producers type IPP (independent power producer) in which Hidroelectrica brings assets from hydro power plants that need investment.

Also, the privatization process for chains of micro-hydropower plants has been initiated. The first 8 chains to be privatized are located on the following rivers: Doftana, Manaileasa, Arges, Olanesti, Dambovita and Targului. The first two have been privatized this year for a cost amounting to about $17 million.

NUCLEARELECTRICA SA

Cernavoda 2, the second unit, is about 77.7% complete (by 2004), and is to be completed and become operational in the first quarter of 2007. Unit 2 will produce around 5.1 TWh/year. Unit 3 is under preservation, with no progress since 1992.

ELECTRICA SA

Privatization of the eight Electrica subsidiaries is estimated to yield more than $1 billion. The first two, Banat and Dobrogea, were privatized in July 2004, followed by Oltenia and Moldova in 2005. In 2006, the privatization of Muntenia will be closed and the Romanian government will embark upon the sale of another three distribution companies Transilvania Nord, Transilvania Sud and Muntenia Nord.

Resources Return to top

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Ministry of Economy and Commerce
http://www.minind.ro
TERMOELECTRICA SA
http://www.termoelectrica.ro
HIDROELECTRICA SA
http://www.hidroelectrica.ro
NUCLEARELECTRICA SA
http://www.nuclearelectrica.ro
TRANSELECTRICA SA
http://www.transelectrica.ro
EELECTRICA SA
http://www.electrica.ro
Romanian Government
http://www.guv.ro

Information Technology

Computer Hardware

Overview

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	2003	2004	2005 (estimated)
Total Market Size	393	497	555
Total Local Production	100	125	155
Total Exports	10	12	14
Total Imports	303	384	414
Imports from the U.S.	182	230	248

Million USD; The above statistics are unofficial estimates.

The Romanian hardware market expanded by 26% in 2004, one of the highest growth rates in the Central and Eastern European region. Expenditures on servers, PCs and PC-related technologies (add-ons, peripherals) increased significantly in all market segments reaching USD 500 million in 2004.

Imports cover more than 60% of the Romanian computer hardware market, and come mainly from such traditional US suppliers as IBM, Hewlett-Packard, Dell and Cisco.

The local manufacturers rely mainly on PC assembly (desktops, laptops and PC servers) and possess half of this market in terms of unit's sold, addressing mainly the consumer and SME segments. Part of the manufacturing comes from local activities of large North American electronic manufacturing services (EMS), companies like Solectron and Celestica.

Although the strong growth was partly due to the fact that the Romanian market is less mature, and therefore has more potential for expansion, it was also driven by a number of other factors, including public sector spending and the upgrading and modernization of the economy.

Best Products/Services

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The requirements of EU accession and the availability of EU funds led to increased investment in basic IT infrastructure in both the government and education sectors. Demand in the consumer and small office sectors was boosted by the increasing availability of competitively-priced IT products through major retail chains, the expansion of consumer credit and government sponsored initiatives like the EURO 200/300 program. Economic growth and related company creation, facilitated greater spending on IT hardware in the evolving small and medium-sized business segment. Even the more developed and nearly-saturated corporate sector saw growth in spending on computer hardware as the replacement cycle reached an upswing.

One of the most important customers of hardware vendors will remain the public sector, which is implementing some of the largest IT programs in the country (integrated system for tax collection, health assurance system, the borders security system, etc.)
Projections for 2006 are for the market to grow to an expected USD 600 millions value.

Opportunities Return to top

Recent initiatives of the Romanian government may stimulate faster growth, especially in the field of personal computers. The launch, in late 2001, of a five-year multi-million project to supply 2,500 schools and high schools with IT laboratories, permitting access to Internet, generated a surge in the PC market. Major US computer hardware firms in Romania are prepared to play an active role in helping the government implement this project.
Best prospects include: personal computers, network interfaces and other communication interfaces, as well as multimedia equipment.

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IBM Romania
http://www.ibm.com/ro
Hewlett-Packard Romania
http://www.hp.com/country/ro/ro/welcome.html
Dell
http://www.dell.com
Cisco Romania
http://www.cisco.com/global/RO
Solectron Romania
http://www.solectron.com
Celestica
http://www.celestica.com
Romanian Government
http://www.gov.ro
Ministry of Communications and Information Technology
http://www.mcti.ro

Safety and Security Market

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	2004	2005	2006
Total Market Size	195	250	300
Total Local Production	35	50	75
Total Exports	20	25	35
Total Imports	160	200	225
Imports from the U.S.	50	75	135

USD Millions; The above statistics are unofficial estimates. The local production mainly represents spare parts assembling and integration in complex systems. Starting with 2006, the local market will also increase due to a rise in the maintenance and repairs market share.

The safety and security market in Romania is growing at an impressive rate of approximately 15-20% annually. It was not until 2005 that the safety and security sector became a viable export opportunity in the Romanian market place thanks to the outsourcing of this service. Romania is an emerging market working hard on the goal of accession into the European Union in the next couple of years, and welcomes US technology and standards in order to achieve that goal. US exporters of security equipment and services should be aware of the fact that the Romanian market represents a sizable opportunity in the following fields: banking security services and technology, security standards and procedures development, outsourcing guard and protection services to companies that are carrying out security missions in Iraq, Iran and Afghanistan.

The Romanian private security market registered a significant increase in 2005, owing to the transfer of responsibilities to the private sector for the security of military objectives and of services that were exclusively carried out by the national defense sector (communications services with afferent logistics, crisis management adjacent services, controlling services before permitting access in objectives of strategic importance, special transport and guard services).

In this context the acquisition of (technical and operational) private security companies or the joint-ventures with the most profitable companies has become a good business opportunity. Annual contracts in this sector will exceed 55% growth in comparison with the previous year, owing to the investment in security techniques.

Another segment becoming a major opportunity is represented by the high demand for ATM private networks assuring the entire complex activity necessary for the banking outsourcing (transporting ATM boxes, loading ATMs with money, first class maintenance, cash management). The ATM demand is estimated at 2,000 units, with a net profit per network of about USD 5 million annually.

Approximately 85 percent of the domestic market is supplied through imports, in addition to several international manufacturers who have already established a market presence and are already selling in Romania, either through distributors or through their local representatives.

Best Products/Services   Return to top

Products manufactured in the United States enjoy a solid reputation in Romania, but new-to-market firms should be aware of keen competition from third country suppliers.

There is a significant need for high-level security technology in the Romanian market, representing an opportunity for US exporters:

- Technology for classified data transmission (audio, video data)
- GPRS Technology
- Biometrics Technology
- Cash-In-Transit (CIT) Technology
- Hardware and software technology for information traffic protection
- Standards and procedures specific to operational systems
- Crisis Management Technology and know-how

Wireless data transmission technology with secured and secret broadband, the access controlling technology with bio-perimeter environment, the long-distance infra-red CCTV supervision technology, telecommunications for operational activities in microwave system, and anti-terrorist robots are segments of the private security industry that cover 25% of the current demand.

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An important factor to consider is the operational training system in relation to the adoption of American standard security procedures. This training system opportunity would implicitly attract investments in American equipment and technologies, together with maintenance services. As a profitability segment, it could cover 45% of the operational market (inexistent for procedures and standards).

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Government and trade/professional associations include:
Ministry of Public Administration and Interior
Web Site: http://www.mai.gov.ro
Security Companies Employers Association
E-mail: contact@patrosec.ro; Web Site: http://www.patrosec.ro
Romanian Security Techniques Association
E-mail: office@arts.org.ro; Web Site: http://www.arts.org.ro

Other Key Web Sites:
Romanian Portal for Risques Control Solutions
http://www.siguranta.ro
Romanian Intelligence Service

http://www.sri.ro
Association for Terrorism Studies and Researches
http://www.terorism.ro
Bodyguard Review
http://www.bodyguard.ro
Security Industry Association (SIA)
http://www.siaonline.org

Upcoming Trade Shows/events:
ExpoSecurity, April 2006, (http://www.exposecurity.ro)
This security trade show is the most widely attended show in Romania, and is held annually each spring. Firms that work in the areas of security systems, alarms and civilian protection, antitheft and safety equipment, etc. participate in this show. In 2005 ExpoSecurity celebrated it 8th anniversary and hosted over 55,000 visitors.

Defense Industry

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	2003	2004	2005 (estimated)
Total Market Size	184.0	202.8	244.3
Total Local Production	107.5	88.75	125.0
Total Exports	36.0	19.2	36.0
Total Imports	112.5	133.25	155.3
Imports from the U.S.	10.1	12.0	15.8

Million USD; The above statistics are unofficial estimates based on SC ROMARM SA data.

Beginning in 1990, the new age in Romania's political, economical and social development, led to important changes in its defense industry as well. These transformations, the global integration of defense industries on the international market, as well as Romania's recent NATO membership, imposed a huge reorganization process on the Romanian defense industry.

Throughout the last fifteen years, Romania had consistently expressed its pro-NATO position and made efforts to qualify for NATO membership. Romanian armed forces have participated in international peace keeping operations (Kuwait, Rwanda, Somalia, Angola, Eritrea, Congo, Albania, Bosnia, Kosovo, Afghanistan) and in Partnership for Peace exercises meant to enhance their interoperability with NATO forces. Romania and the United States have established a close Strategic Partnership.

Since 1990, Romania has been working on plans for restructuring, downsizing and modernizing its armed forces and defense industry, trying to better assess what it needs and what it can afford. The country's armed forces have been gradually reduced. However, the NATO membership and the subsequent Timetable for Reform provides for a fundamental review of this concept, to underscore the expeditionary nature of the force, its flexibility, deployment ability and sustainability.

In this respect, the following main measures were taken:

- Resizing the sector according to the real needs of internal and external markets;
- Conversion to civilian production;
- Privatization of state owned defense industry companies;
- Development of strategic partnerships with well known Western companies;
- Modernization and upgrade of the production facilities in order to reach the goal of developing the production of military equipment at NATO standards.

Presently, Romania's Defense Industry is encompassing 38 companies, 23 of them being state-owned companies. Among them, the National Company ROMARM SA, a holding encompassing 16 subsidiaries, is the main supplier of the Romanian Armed Forces. These subsidiaries, 15 factories and one development and research institute are situated both in and outside Bucharest, in industrially developed areas with specialized employees, able to manufacture and to design modern products and to propose a wide range of new products adapted to market demands.

The National Company ROMARM S.A. is manufacturing and commercializing a large variety of special products, such as: armored vehicles on wheels and on tracks, infantry weapons and ammunition, artillery systems, missiles systems and rockets, powders, explosives and propergols.

The Romanian defense industry's expansion, in accordance with the goals established for the 2005 – 2007 timeframe, are as follows:

- Right-sizing the defense production facilities according to the real needs of the Romanian Armed Forces and Romania's integration in the Euro-Atlantic structure;
- Initiating necessary procedures to allow Romanian companies to participate in NATO acquisition programs;
- Concluding the privatization process;
- Long-term extension of alliances & partnerships on the purpose of facilitate the access to the high technologies, know-how transfers and participation in NATO's top-level programs.

Best Products/Services Return to top

Through its performances and potential, Romania's defense industry represents a complex and dynamic economy niche, presenting attractive opportunities for both foreign and national investors.

Opportunities Return to top

The current situation of the defense industry market and its main trends indicate that the sector's major procurement efforts during the next few years will be related to the following projects:

1. Establishing joint ventures with US partners, and any other kind of cooperation in co-production and commercialization of:
   - Armored vehicles on wheels and on tracks;
   - Infantry weapons and ammunition;
   - Artillery systems and ammunition;
   - Missiles systems and rockets;

- Powders, explosives and proper goals
- Equipment and subsystems.

2. Participating in several investment projects, such as the production capacities for non-ferrous rolled goods and iron cast parts.
3. Participating in the defense industry privatization process, where the U.S. investors will be able to buy stocks.

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Ministry of Economy and Commerce
http://www.minind.ro
Romanian Government
http://www.gov.ro
North Atlantic Treaty Organization-NATO
http://www.nato.int
CN ROMARM SA
http://www.romarm.ro
PATROMIL
http://www.patromil.ro
Defense Trade Show
http://www.expomil.ro

Franchising

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	2003	2004	2005 (estimated)
Total Market Size	60	124	210
Total Local Production	11	24	50
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	45

Note: Number of franchising

The increasing importance of the private sector, opening up of new industries and the upward evolution of investments combined with Romania's steady efforts of obtaining European Union full membership have been instrumental in fostering the development of the franchise system in Romania. In 1998, the Romanian Government created the legal framework for this sort of business by issuing the Franchise System Law, which is designed to attract the investments. Unlike other countries where prior to setting up a franchise, it is mandatory to establish a local office with at least one local employee, the Romanian law is very flexible allowing trans-border sale of franchises.

However, developing a franchise is contingent on rather large initial capital and on certain restrictive clauses imposed by the franchiser, such as the obligation to sell products at a certain price or buy merchandise only from certain suppliers that could fall under the antitrust legislation, with all negative consequences deriving from it.

Despite the above-mentioned constraints, the franchise market in Romania started an upward trend in 2000. From 18 franchise chains registered that year, the number went up to 210 in 2005, achieving annual revenues of almost $1.1 billion, which accounts for 8% of the whole trade (still small in comparison with the U.S. market - 70%). By the end of 2007, the number of franchises is predicted to increase up to 500, out of which 70% will be international and 30% Romanian.

The most developed franchise networks in Romania are: Fornetti (300 operating units), Allois Dallmayr Kaffe (117 operating units), Germanos (75 operating units). Both the Romanian and the international brands concentrated on cities with over 100,000 inhabitants, such as: Timisoara, Constanta, Brasov, Ploiesti, Sibiu, Oradea, Iasi, with Bucharest ranking first, with over 70% of the total franchises in Romania.

U.S. franchisers have a significant share of the Romanian market (21.4%). The most well known companies are:

- McDonald's,
- Pizza Hut,
- KFC,
- AGIP,
- Candy Bouquet,

- Romanian-American oil company Rompetrol, the biggest in the Romanian oil market,
- Howard Johnson Grand Hotel Plaza, a $25,000 million investment,
- Four Star Pizza **(**5 operating units, with a franchise fee amounting to $3,575.80),
- Daylight Donuts**,** (3 operating units in Romania, franchise fee amounting to $14,300.76 and a total investment of $35,754.81 - 41,714.72),
- Coca Cola,
- Pepsi Cola,
- Pizza Hut**,** (investment between $30,000 - $100,000 and 9 operational units),
- Ruby Tuesday,
- American Life Insurance Company,
- Hertz,
- Budget,
- Pizza Inn,
- Gloria Jean's Café **(**Initial investment of $360,778 and liquidities amounting to $150,310. The units are in City Mall Bucharest, in Constanta, with a third in Timisoara currently under development.
- Computer Troubleshooters entered the Romanian market in the spring of 2005, through a master franchise contract. The Romanian master franchisee is entitled to develop the network in Romania and expand it to neighboring countries as well. CT is ranked second only to Entrepreneur worldwide in the computer service field.

Best Products/Services Return to top

The most successful franchises on the Romanian market belong to the segment of retailers and service providers, which require lesser investments. To set up a retail business, the entry fees, (accounting for almost 60% of the initial costs of the business start-up) can amount to $30,064. For a service provider franchise, the fee ranges between $12,026 and $60,122. A fast food company could go up to $120,243. The royalties that a retailer needs to pay vary between 0 and 6% of the turnover, whereas in the case of a service provider they may go up to 20%.

The franchise turnover breakdown by industry in 2004 was the following**:**

- $372 million (soft drinks, alcoholic beverages, building materials)
- $241 million (financial services, advertising, human resources and maintenance)
- $171 million **(**distribution and retail sales; fashion, jewelry, electrical appliances, oil products, body care products)
- $37 million **(**fast food and food industry)
- $38million (hotel industry)

Opportunities Return to top

Franchisors who have submitted offers to gain access to the Romanian market are:

- Subway. The entry fee is $10,000. The royalties represent 8% of the turnover, 3.5% advertising. The total investment ranges between $85,000 and $250,000.
- Cendant – Ramada**.** The group of investors led by Gabriel Popoviciu and Radu Timofte own the Howard Johnson, Best Western and Turist hotels in Bucharest. The group received from Cendant the authorization to license under the brands of this network, hotels in Romania, Bulgaria and Moldavia. Thus, by the end of the next year, the hotel Turist, currently under renovation will be ranked a four star hotel and

will become affiliated to an international network. Its stockholders are still debating whether it will be under the Ramada brand or continue to be Howard Johnson**.**
- Different Twist Pretzel
- New Horizons

Following is a breakdown by sectors of the American franchisors that intend to sell their licenses to Romania.

- Automotive Products & Services

  Midas Auto Service Experts
  Precision Tune Auto Care Center

- Building & Remodeling/Furniture & Appliance Repair

  Air Serve Heating & Air Conditioning
  The Closet Factory
  Mr. Appliance Corporation
  Mr. Electric Corp.
  Perma-Glaze
  Surface Doctor

- Child Development/Education/Products

  FasTracKids International
  The Fourth R
  Kinderdance International

- Education/Personal Development/Training

  Direct English
  Executrain

- Food: Quick Service/Take-out

  Blimpie Subs and Salads
  Subway Restaurants

- Food: Restaurant/Family-Style

  Bennigan's Grill & Tavern
  Buffalo's Southwest Café
  Ponderosa/Bonanza Steakhouse

- Maintenance/Cleaning/Sanitation

  American Leak Detection
  Mr. Rooter Corp.
  Swisher Hygiene

- Recreation & Entertainment

  World Gym International

- Retail: Specialty

  Candleman Corporation
  General Nutrition Centers

- Global Travel Network

  Global Travel Network

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Consultants, ARFR members:
IMO Franchising Group
http://www.fbb.ro
CHR Consulting
http://www.francize.ro
Information on franchise:
http://www.observatorulfrancizei.ro
European Union
http://europa.eu.int
Romanian Government
http://www.guv.ro
McDonald's Romania
http://www.mcdonalds.ro
Pizza Hut Romania
http://www.pizzahut.ro
KFC
http://www.kfc.com
Coca Cola Romania
http://www.coca-cola.ro
Pepsi Cola
http://www.pepsico.com

Information Technology

Computer Software

Overview

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	2003	2004	2005 (estimated)
Total Market Size	75	89	105
Total Local Production	29	36	45
Total Exports	12	16	21
Total Imports	58	69	81
Imports from the U.S.	43	52	61

Million USD; The above statistics are unofficial estimates.

The Romanian packaged software market reached a value of USD 105 millions in 2005, representing an annual increase of 16% from the previous year and is expected to grow to USD 125 millions in 2006. Imports cover 75% of the local software market and about 3/4 of all foreign software products in Romania are American.

Software comprised 12% of overall IT expenditure, a low proportion when compared with other Central-Eastern European countries and with EU-15 countries. However, the Romanian software market is undergoing continued rapid expansion with 20% annual growth over the next two years, driven by general economic growth, NATO accession, recent large privatization deals, the potential adherence of Romanian banks to the Basel II Agreement by the end of 2006, and Romania’s anticipated accession to the EU in 2007.

Best Products/Services

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The 10,000 local software companies are mainly providing IT services for local and international markets, but are increasingly involved in packaged software development (especially in ERP/EAS, anti-virus, e-health and e-learning areas). The local anti-virus software vendor GeCAD sold in 2003 his proprietary technology to Microsoft in a USD 20 millions transaction. Another Romanian security software producer, Softwin, is expanding globally, gaining top positions in several western European anti-virus retail markets.

Opportunities

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The systems software and tools market segment accounts for more than 50% of overall local software expenditure and is dominated by US vendors Microsoft, Oracle and IBM. Application solutions market is mainly represented by EAS (Enterprise Application Systems). The top three vendors (SAP, Oracle and local player Siveco) capture 60% of the Romanian EAS market. The large corporate and the government sectors are still the biggest spenders on EAS, but the market is progressively expanding into the small and

medium-sized businesses segments. The top-selling EAS modules are the resources management and core functionalities. Nevertheless, a significant demand is noted for more complex applications like customer relationship (CRM), supply chain management (SCM), or business analytics which are expected to grow rapidly in the next years. The largest purchaser of EAS in 2004 was the utilities sector followed by retail, telecom and manufacturing sectors.
Spending on content and document management solutions is largely confined to the government and financial services sectors. The relatively immature security software market (dominated by Anti-Virus, and firewall/ VPN software) is changing with significant growth in the 3As (Authentication, Authorization, Administration) application sector. The market for applications related to technology management is still in an early stage of development.

Higher spending on software applications is expected in 2005-2006, driven by companies' efforts to improve business process efficiency and to compete in the EU marketplace. Another growth-generating factor will continue to be the government-supported implementation of such large IT projects as the development of information systems for public administration at both local and national levels and the expansion of e-government and e-commerce.

Functional markets providing best opportunities in the next period include EAS, CRM, SCM, security, content management and e-learning. Verticals such as utilities, government, retail, manufacturing and telecommunications will continue to grow significantly.

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European Union-EU
http://europa.eu.int
North Atlantic Treaty Organization-NATO
http://www.nato.int
Romanian Government
http://www.guv.ro
Ministry of Communication and Information Technology
http://www.mcti.ro
Microsoft Romania
http://www.microsoft.com/romania
Softwin
http://www.softwin.ro
Oracle Romania
http://www.oracle.com/global/ro
IBM Romania
http://www.ibm.com/ro
SAP Romania
http://www.sap.com/romania
Siveco
http://www.siveco.ro

Environment

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	2003	2004	2005 (estimated)
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	N/A

No statistics available.

Romania faces acute problems generated by air, water and soil pollution. The solution will require a large investment in the short and long term, as well as the involvement of both the public and the private sector.

In view of Romania's ascension to European Union (EU), the legislation governing the environment protection has been gradually changed in order to comply with the EU requirements. Romania is currently implementing the acquis communautaire (EU accession document) in the field of environmental protection until January 2007, with the exception of the following fields for which transition periods have been requested:

- Air quality: control of volatile organic compound (VOC) emissions resulting from the storage of petrol and its distribution from terminals to service stations (transition period of 3 years).

- Waste Management: packaging and packaging waste (transition period of 3 years), landfill of waste (transition period of 10 years), incineration of waste (transition period of 3 years).

- Water quality: urban wastewater treatment (transition period of 15 years), (quality of water intended for human consumption (transition period of 15 years), pollution caused by certain dangerous substances discharged into the aquatic environment of the Community (transition period of 8 years), protection of waters against pollution caused by nitrates from agricultural sources (transition period of 7 years).

- Industrial pollution control and risk management: integrated pollution prevention and control (transition period of 8 years), limitation of emissions of volatile organic compounds due to the use of organic solvents in certain activities and installations (transition period of 8 years), limitation of emissions of certain pollutants into the air from large combustion plants (transition period of 5 years).

These legislative changes as well as the upcoming transition periods are supported by on-field measures. The cost of such measures in Romania has been estimated at a staggering $ 35 billion between 2005-2019, the highest costs estimated for any of the EU accession countries. The highest costs will fall under the "heavy environment investments" related to water and wastewater; solid and hazardous waste management;

and large combustion plant air quality control. EU Grants are expected to cover around 34 percent of investments, with the rest requiring government and private funds (loans from International Financing Institutions and private-public partnerships). The investments will be made in the following sectors:

- Industry pollution control

Consequences of Romania's former political regime, outmoded infrastructure and industrial resources represented persistent stumbling blocks to improved environmental performance. Drastic measures have been imposed to change the situation. The Romanian industry is progressively adapting new models of industrial consumption and production by: use of technologies with low energy and material consumption, use of renewable resources and reduction of the economic factors' influence upon the environment.

In Romania, there are 716 industrial installations that need to be modernized in order to comply with EU requirements for industrial pollution, out of which only 18 are compliant, 195 obtained transition periods until 2115 and 521 will be required to comply by December 31, 2006. The value of such investments amounts to $3.2 billion, out of which 25% has already been spent.

- Water/wastewater treatment

The hydrographical basins of Romania belong mostly to the Danube River, except for a small part of Dobrogea rivers, which are tributaries to the Black Sea. The Romanian water resources are mostly surface waters (inland waters, natural and artificial lakes, the Danube river) and to a lower extent - 10% - ground waters. The main water resources of Romania are the inland rivers: 4,864 streams (listed and encoded) have a length of 78,905 km. Related to the present population of the country, the specific usable resource is approximately 2,700 m^3/inhabitants/year, while the European average is 4,000 m^3/inhabitant/year, ranking Romania in the 20th position in Europe.

In the field of water quality protection, one of the main objectives of the government is to improve water quality and increase the supply of water resources, as well as the treatment of wastewater. Major areas of concern are related to the improvement in the quality of water supply and water resources, the development of new wastewater treatment plants, and the modernization of existing plants. There is also concern with the accumulations of heavy metals and organic compounds in sediments, and the reduction of the nitrogen, pesticides and other degraded product concentrations in the waters.

- Air pollution control.

There has been a dramatic drop in emissions of polluting substances since 1989. This is largely due to the contraction of the economy, but also to some investment in environmental protection. The major sources of pollutants are: for SO2, thermal-power plants and power plants (70%); for NOx, thermal-power plants and road transport (60-65%); for CO, industry and combustion (75-80%); for CO2, thermal-power and industrial combustion (75-80%).

Romania has nine cities of more than 250,000 inhabitants on the Romanian government's priority list for building bypass roads in order to protect the population from traffic pollution. Attention is also given to the elimination of ozone depleting substances and to controlling pollution caused by the production of electricity and thermal power, the chemical and petrochemical industry, and ferrous and non-ferrous metallurgy.

- Waste management and contaminated soil remediation.

Waste materials represent a major problem for environmental protection, due to their accumulation in large quantities and their inappropriate disposal over a long period of time. The deposits of industrial or domestic wastes cover large areas and are a permanent threat to the environment (especially for underground waters) and to human health. The lack of adequate waste treatment facilities represents a major weakness of the Romanian infrastructure.

Best Prospects/Services Return to top

Although EU is one of the largest investors in this sector, U.S. companies may enter the Romanian environmental sector.

Best prospect areas for such products and services are related to projects managed by municipalities and local governments (water supply, waste water treatment, solid minimization, recycling and disposal, district heating, mining waste), projects handled by individual companies (emissions and effluent reduction and treatment, pollution prevention measures, hazardous waste disposal, energy utilization, and soil remediation), projects related to the construction, modernization, or extension of landfill sites for both cities and villages or construction of deposits for industrial wastes, the creation of secure centralized deposits for dangerous waste, the establishment of incinerators for dangerous and clinical waste, and waste re-cycling. Another important area of opportunity is that of EMS (Environmental Management System) implementation according to international standards (ISO 14001).

Opportunities Return to top

Romania's needs for environmental services are immense. The Romanian Government has entered into negotiations with various international financing institutions such as the World Bank, and the European Bank for Reconstruction and Development, which all have granted their support to environmental projects. Large amounts of funding are flowing from EU through PHARE, ISPA, and SAPARD programs running through the year 2006. Beginning with EU Accession, scheduled for 2007, Romania will receive several billion Euros in funding for infrastructure development. US companies will be eligible to compete for these infrastructure development projects.

Major projects will be implemented in 2006. The World Bank financed Municipality Services Project targets to improve and modernize the sewerage infrastructure. The first cities that are to be financed under this project are Bucharest (estimated costs: $ 81 millions) and Arad (estimated costs $67 millions).

WATMAN project, with EXIM as possible source of financing, provides opportunities for U.S. companies. With a total cost of $ 180 million, the project aims to create an Integrated Information and Decision-Making System for Disasters, integrating hydrological and meteorological data and forecasts in real terms for optimizing the

Romanian water management system. In 2006, $ 59 million is expected to be contracted.

By June 2006, another World Bank financed project is scheduled to start. The Environmental Management Loan aims to improve the application system for environment policies.

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Ministry of Environment and Waters Management
http://www.mmediu.ro
Romanian Government
http://www.guv.ro
European Union
http://europa.eu.int
World Bank
http://www.worldbank.org
European Bank for Reconstruction and Development
http://www.ebrd.com
United States Export Import Bank (US EXIM Bank)
http://www.exim.gov

Agricultural Sectors **Return to top**

Swine Meat

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	2004	2005 (estimated)	2006 (forecast)
Total Market Size	1,240	1,436	1,470
Total Local Production	1,025	1,137	1,195
Total Exports	13	1	5
Total Imports	228	300	280
Imports from the U.S.	14	50	75

Million USD; Unofficial estimates.

With animal herds still struggling to recover after the very severe drought in the summer of 2003, the livestock sector in Romania has grown slightly in 2005. In 2004, swine meat became Romania's top agricultural import (over $220 million worth), a trend that is likely to continue in the short run, as domestic supplies are short and of a variable quality. US exporters have competitively started using opportunities in pork cuts for processing, although the new concessions were granted to EU partners from August 1, 2005 through the Additional Trade Protocol with EU.

Best Prospects/Services Return to top

Domestic swine meat production volume terms in 2005 declined by an estimated 3 percent, because of a drop in the number of animals slaughtered. Nonetheless, expectations are that domestic pig production will increase in the middle to long-term, as a result of foreign investments.

Data released by the Ministry of Agriculture show that, in 2005, only about 21 percent of domestic pork supply was delivered to processors, while the share of self-consumption increased to 63 percent (from 60 percent in 2004), with the balance directly sold on the retail market. An additional problem related to the domestically supplied hog meat is the wide variability in quality, often unacceptable for the processing industry. Consequently, the growing meat demand by local processing has increasingly become to rely on imports, which in 2004 were up 37 percent from 123,000 MT carcass-weight in 2003.

It is generally assessed that after Romania becomes an EU member only the few farms currently equipped with competitive technologies will remain operational. Currently, the accession preparations related to food safety along the production chain (primary production, the production of animal feed and consumer safety) are being given a special emphasis, as the EU food industry is subject to strict sanitary regulations. Romania was granted a transition period until December 31, 2009 for modernizing and re-vamping its slaughtering and meat processing units, in compliance with the Community requirements. Meanwhile, products from establishments subject to transitional arrangements will not be exported to other Member States and will be clearly identified.

Opportunities

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Per capita meat consumption in Romania is about 45 KG, representing just about half the EU average. Romanians show a strong preference for pork (about 50 percent of the total). Although animal protein intake is slightly increasing, it continues to be relatively low in the consumption pattern (about 20 percent).

Production of processed meat products was estimated at roughly EUR 330 million in 2004 (10 percent increase from the previous year), with a similar trend into 2005. Domestic consumption is still modest (8-9 KG/year/capita) and reveals some seasonality, with peak periods in May-June and September-October.

Overall, there is a trend towards buying more expensive, higher quality, branded products, although more than half of the meat-processed products are still sold in bulk. A good distribution through supermarkets and smaller points of sale plus an acceptable price/quality ratio are factors that influence consumption of a certain brand. Packaging has also been a very dynamic aspect in the Romanian food industry, reason for which companies continuously diversify the presentation of their products on the shelves. Large domestic companies are struggling to strengthen their brand names in an attempt to differentiate themselves. Thus. there are several such brand names that have already became "national" and further product diversification and expansion into niche markets is a natural trend.

Provided that swine meat will enjoy the same import regime until the end of 2006 (when Romania will adopt the CXT), demand for cuts originating from US to augment local supplies for processing is likely to remain high. Products such as frozen pork liver and other offal are sold to makers of paté whose demand is typically very strong in the second half of every calendar year.

Although the meat and meat product market continues to expand, the pace of growth has decelerated lately. The top five meat-processing companies account for roughly 40 percent of the market. Foreign investors (including from US) are putting efforts into revitalizing the Romanian hog production industry, including by developing consumer demand for new products in the Romanian marketplace and establishing national distribution channels, sales and logistics infrastructure and brand awareness.

Resources

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Ministry of Agriculture, Forests and Rural Development
http://www.mapam.ro
Veterinary and Food Safety National Authority
http://www.ansv.ro

Professional web sites:
Romanian Meat Association
http://www.rma.ro

Broiler Meat

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	2004	2005 (estimated)	2006 (forecast)
Total Market Size	394	535	570
Total Local Production	336	440	460
Total Exports	24	15	20
Total Imports	82	110	130
Imports from the U.S.	34	65	75

Million USD; The above statistics are unofficial estimates.

Abundant domestic grain feed and vegetable protein crops, which lowered feed costs significantly, gave the Romanian poultry industry a new boost in 2004 and 2005, with remarkable productivity gains in industrial operations. Poultry inventories were up 4 percent, reaching 79.3 million at the end of 2004, although industrial flocks totaled just 17.4 million, with the balance held in small households, which typically grow layers for self-consumption.

Economic indicators (high productivity, improved feed conversion ratio, depressed mortality) reveal a sustainable recovery of the sector during the past 5 years. Romania's poultry industry performance indicators are comparable to those of the EU member states, an indication that the sector may rapidly adapt itself to the conditions of the enlarged common market. This scenario refers only to production obtained in large and small commercial operations, though individual households count roughly for one third of poultry meat domestic consumption. The key to competitiveness is the typically low cost of local corn. Romania typically produces 8-10 million MT of this crop and has the potential to double it with improved agronomic techniques. Good conditions also exist for soybean cultivation under irrigation and, in fact, in 2004/05 and 2005/06, years with significant rainfalls, Romania has been self sufficient in crop protein.

Concentration is significant in the poultry industry: the seven largest operations accounted in mid-2005 for roughly 50 percent of country's commercial production, but small players, producing 1,500-2,000 MT/year, remain numerous. The large farms are fully integrated from reproduction, to slaughter and processing, and, occasionally, they even have they own distribution network. Smaller producers are not integrated and deliver their production to local slaughterhouses.

The poultry industry in Romania is foreseen to radically change after the country joins the EU. While egg production will drastically shrink, broiler production is expected to increase three-fold, in parallel with an accelerating market concentration. Analysts show that the number of such broiler industrial operations after 2007 will be just 20 – 30, with an annual production between 25-40 thousand MT.

The number of poultry meat plants will likely halve in the medium run.

FDI level in the industry is one of the highest in agriculture, with investors from Middle East and EU, who generally acquired formerly state-owned farms. Since labor costs in the industry are much lower than in EU, investments in new technologies have been made for raising quality of products that target export markets.

Best Prospects/Services

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Although recent trends in the urban retail market indicate a clear preference for fresh, branded, attractively packaged products, imports continued in 2005 to hold about 37 percent of the broiler meat consumption.

In 2004, roughly 320,000 MT of broiler meat was sold domestically, which translates into about 14 KG/capita per year. To this, significant amounts (54,000 MT in 2004, according to Ministry of Agriculture statistics) of poultry meat were consumed from self-production, especially in rural households.

Consumers are not devoted to a single brand, but product availability (i.e., good distribution through supermarkets and smaller groceries) plus an acceptable price/quality ratio are factors that influence consumption of a certain brand. Generally, local market trends reveal a preference for dark poultry meat (legs) versus white meat (breast), although the price differential between the two is becoming significant.

Domestic consumers are shifting to higher quality products, which make producers increasingly interested in positioning themselves on the market via product branding and packaging. Close to 50 percent of locally produced poultry meat is sold chilled, rather than frozen.

High value-added chicken products (ready-to-cook) are not yet in demand on the local market.

Opportunities

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Demand for poultry and products in Romania maintain its upward trend, powered by increasing incomes. Romanian imports of broiler parts surged by 45 percent in 2004, reaching nearly 120,000 MT. The United States has consolidated its market share over the past three-four years, becoming a steady supplier of relatively low-priced products, such as frozen broiler leg quarters. In fact, in 2004, US supplied more than half of the total broiler meat imports, and Brazil another 26 percent. The two countries have remained the main import sources in 2005, despite concessions enjoyed by EU[1]. Lower-

[1] From August 1, 2005, the TRQ for products falling under HTS 0207 originated from EU member states was increased to 9,000 MT annually. EU symmetrically granted this concession to Romanian poultry products.

income population segments continue to absorb significant amounts of such reasonably priced products. A good 90 percent of these are frozen parts (especially chicken leg quarters), despite a quite protectionist import regime, with MFN duties set up at 45 pecent *ad valorem*.

Resources

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http://www.ansv.ro

Cattle and Beef

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	2004	2005 (estimated)	2006 (forecast)
Total Market Size	324	476	492
Total Local Production	318	448	460
Total Exports	2	2	3
Total Imports	8	30	35
Imports from the U.S.	0	0	5

Million USD; The above statistics are unofficial estimates.

Romania's cattle herds remained quasi-constant for the past three years and a similar trend is anticipated further into 2006. Recovery in this sector is very slow, due to both the long production cycle and the structural deficiencies characteristic to Romanian agriculture, even though the GOR launched various subsidy schemes for bovine growers. A trait of the bovine sector in Romania is that there are no differences in feed ration formulation for dairy cows versus beef cows, resulting in an excess demand for good quality beef.

Best Prospects/Services

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Beef production continues to come mainly from small farms and remained pretty stable in 2004 compared to 2003, i.e., 190,000 MT, on a carcass weight basis. Of this, 45 percent went to meat processing units, while 38 percent was self-consumed in rural households and the remaining 17 percent supplied to the retail market. For 2005 and 2006, we anticipate opportunities for additional slaughtering, which, together with an increase in the average carcass weight (due to existing Governmental programs meant to extend the period until calves are butchered), is likely to result in an annual 5-6 percent surge in the domestic beef production.

Rapidly appreciating local prices gave a significant boost to imports, which is a trend expected to continue in the medium run, triggered by an emerging demand for good quality beef in urban areas, both for household cooking and by food service.

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Beef consumption is quite low in Romania, totaling only 7 kg per capita annually and representing only 15 percent of total meat consumption. This is due mainly to traditional Romanian consumption patterns (pork and poultry meat being preferred by the average consumer), as well as by the low presence of specialized bovine meat breeds which leads to poor domestic quality. Among the three main kinds of meat (beef, pork and poultry), beef has the lowest degree of self-production: slightly over a third of total production.

It is expected that the local Romanian beef industry will soon respond to important growth potential in domestic beef consumption. The industry recently acknowledged that there are a number of priorities to be addressed: the introduction of specialized beef production breeds, improvements in feed and forage practices at farm level, advanced techniques for animal husbandry, and the introduction of carcass grades and standards. Meanwhile, beef imports continue to surge: in 2004, Romania imported almost 4,200 MT of beef, mostly from EU member states, while this amount more than doubled only in the first half of 2005, with Brazil becoming the top supplier.

Because of BSE concerns, very few countries are permitted to export live cattle/beef to Romania. Approved countries include: Australia, Canada, Paraguay, Denmark, Austria, Hungary, France, the Netherlands.

Imports of US beef and products (including tripe, for which US was the number one supplier for the past couple of years) are temporarily banned in Romania, because of the first indigenous BSE case registered in US. The veterinary authorities from the two countries are continuing to work on a mutually acceptable language in the health certificate for beef products to be shipped to Romania.

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http://www.ansv.ro

Professional web sites:
Romanian Meat Association
http://www.rma.ro

Fishery Products

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	2003	2004	2005 (estimated)
Total Market Size	60.5	75.3	102.5
Total Local Production	26	30	33
Total Exports	2.5	2.7	3.5
Total Imports	37	48	73
Imports from the U.S.	308	7.7	6.6

Million USD; The above statistics are unofficial estimates.

Although domestic fish production has slightly recovered from the decrease in 2004, its level cannot meet the consumers' needs and preferences, thus, imports are expected to increase by 50%. A similar trend is likely to continue in the future.

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The most relevant fish species on the market are blue fish, such as Mackerel (over 60% of the imported species), Herrings, and white fish, such as Merllucius. Good prospects in the medium-term include seafood products such as shrimp, squid, and scallops.

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There are several factors that will positively influence the future development of the fishery sector:

- Increasing consumer income and taste sophistication
- Retail and food service sector development giving consumers access to a larger range of fish products
- Fish-processing companies modernization and expansion
- Lower customs duties for frozen fish and processed fish as a result of EU integration

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Distilled Spirits

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	2003	2004	2005 (estimated)
Total Market Size	1,175	1,333	1,470
Total Local Production	1,150	1,300	1,430
Total Exports	0.28	0.38	0.93
Total Imports	25	33	41
Imports from the U.S.	2.5	3.4	4.9

Million USD; unofficial estimates.

The total spirits market reached the value of $ 1.3 billion in 2004, including home-made drinks (38%). Imported spirits last year reached $ 33 million (2.7 million liters), of which Whiskey imports hold more than 50% ($ 21 million).The United States' market share in this sub-sector is 11% ($ 3,4 million), about half of the import value being attributed to Bourbon Whiskey ($1.7 million).

Excise taxes on spirits increased in April 2005, from 280 EUR/hl pure alcohol to 410 EUR/hl. In a gradual adoption of the European Union legislation on excises, the excises are forecast to reach 550 EUR/hl pure alcohol in 2007 (the minimum level in the EU). The excise tax increase will lead to a general decline in the consumption of spirits, but will mostly affect the locally produced brands. An increase in the consumption of premium brands is expected, as the impact of new excises will be much stronger on the popular local brands, which are less expensive, than imported brands.

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Demand for distilled spirits, especially Whiskey and vodka, is expected to continue rising, as consumers become more sophisticated in tastes and more sensitive to good quality drinks. Despite the preferential duties granted by Romania to EU countries, United States will continue to be competitive on the Romanian market.

Opportunities Return to top

There are several factors that will positively influence the future development of the sector:

- Increasing consumer income and taste sophistication
- Retail and food service sector expansion
- Consumer awareness for high–quality products

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Chapter 5: Trade Regulations and Standards

Import Tariffs **Return to top**

According to international standards, the Romanian market is open, requiring no special conditions for access or operation on the part of foreign companies. Romania is a signatory to the conventions on Preferential Trade among Developing Countries and Generalized System of Trade Preferences among Developing Countries.

Romania adopted an 8-digit customs tariff code in March 1993. This code is based on the International Harmonized System of Combined Nomenclature. The first six numbers indicate the position of the commodity from the Harmonized System and the last two numbers show the national description of custom nomenclature.

Tariffs are particularly high for such items as cigarettes, furs, carpets, vehicles, bicycles, TV sets and sound and video equipment. Duties applied to industrial equipment are generally about 5-20 percent ad valorem.

Exemptions from customs duties apply to exported goods, goods in transit, merchandise in customs warehouses (during the storage period), and goods imported and then exported under the draw-back system. Import operations that benefit from duty exemptions are: active improvement, goods processing, temporary admission, warehousing, and transit.

Notable provisions of the VAT and profit tax laws include:

- The standard rate of value-added tax is to equal 19% and is to apply to the base of taxation for any taxable operation that is not exempt from the value-added tax or that is not subject to the reduced rate of value-added tax. A reduced rate of 9% applies for the several supplies of services and/or deliveries of goods, such as prostheses of any type and accessories to them, with the exception of dental prostheses, deliveries of orthopaedic products, medicines for human use and veterinarian use, accommodations within the hotel sector or within sectors with a similar function, including the rental of land prepared for camping.

- For direct investments, possibility to carry forward the fiscal loss during the following 5 years from the taxable profit;
- Possibility for SMEs to carry forward the fiscal loss during the following 5 years from the taxable profit;
- Private companies, as well as private entrepreneurs or family-held associations, which are headquartered and carry out their activity in a disadvantaged zone, have the benefit of being exempted from the tax on profit for the new investments made by legal persons that obtained the permanent certificate of investor in a disadvantaged zone before July 1, 2003;
- Exemption from paying VAT for: imported goods that are introduced into one of the six free trade zones for the sole purpose of being stored in the free trade zone, trade operation inside the free trade zone or between merchants inside and outside the free trade zone, exit of imported goods from the free trade zone, services in connection with the above activities.
- Investors that develop activities within a free zone, that started their investments with a value exceeding USD 1 million, before July 1, 2002, in manufacturing industry, benefit from exemption for paying tax on profit until December 31, 2006. The investors that have changed their shareholding structure with more than 25% within a year do not benefit from the above-mentioned incentive;
- For their establishment and operation, the scientific and technological parks benefit from the following incentives: tax reduction granted by the local authorities for the fixed assets and land given to the park for its use, as well as other incentives, which may be granted according to the law, by the public local authority, exemption from payment of taxes for modifying the land destination or land withdrawal from the agricultural use for the land used in the scientific and technological parks, deferred payment of VAT for materials, equipment and connecting to the public utilities during the investment period until the opening of the park;
- Amounts deposited in reserve accounts, which represent fiscal incentives cannot be used for increasing capitalization or covering loses;
- In cases of activities such as nightclubs, discotheques and casinos, the profit tax cannot be lower than 5% of the revenues obtained from such activities;
- Interest expenses are deductible in cases where the degree of capital indebtedness is less than 1%;
- Investment in a depreciable fixed asset or in depreciable patents which are destined for activities for which they are authorized and which do not apply the regime of accelerated depreciation may deduct a depreciation expense equal to 20% of the entry value of such asset, on the date that the fixed asset or patent is put into operation;
- Loss carry-forwards are allowed for up to 5 years after showing a taxable profit;

Romania has signed a significant number of bilateral Double Tax Agreements (DTAs). Most of these agreements follow the OECD model. The Double Tax Agreements prevail over domestic legislation, provided that a certificate confirming the foreign fiscal residency of the taxpayer is presented to the Romanian tax authorities. The DTAs also contain provisions related to withholding taxes. Companies based in countries with which Romania has signed DTAs benefit from a reduced level of withholding taxes.

A revised Fiscal Code and a Fiscal Procedure Code entered into force in January 2005.
The Fiscal Code provides for a significant simplification of taxation procedures as well as

for harmonization with European Union fiscal practices. In the first quarter of 2004, Romania revised its tax incentives system to bring them in line with the EU acquis. This affects incentives for major investments, as well as investments in free trade zones and disadvantaged zones.

Trade Barriers **Return to top**

A potential obstacle for U.S. exporters is the preferential tariff treatment for European commodities. The trade arrangements with the European Union, EFTA, and CEFTA result in customs duty discrimination against many U.S. products, sometimes by as much as 30%.

Import Requirements and Documentation **Return to top**

The Customs Office requires standard import documentation. The import bill of entry (which also applies to exports) must be submitted for acceptance and registration to the Customs Authority, supported by the following documents:

- Transport document of the cargo;
- Invoice, whether original or copy, or any other document attesting to the customs value of the consignment;
- Customs value declaration;
- Documents making the consignment eligible for application of preferential customs tariffs or for derogation from the basic customs tariff (e.g., certificate of origin);
- Any other document required by the specific legal regulations valid for the import of the goods mentioned in the bill of entry (e.g., license, certificate of conformity);
- Titleholder’s fiscal code.

Goods under duty suspension require the authorization of the Customs Authority, and relevant contracts should also be presented for clearance purposes

U.S. Export Controls **Return to top**

Exports of goods and services are currently not subject to customs duties or VAT, and for the majority of goods, no export license is required. Authorizations are, however, required for exports of fuels, unfinished wood products, metallurgical products, ferrous and non-ferrous waste. Additionally, there are also specific export regimes established by international commercial agreements to which Romania is a party. The Ministry of Economy and Commerce issues export licenses on a case-by-case basis. An export license can be cancelled if there are any violations of export control regulations, or if the original conditions for which the license was issued are changed.

The National Agency for Export Control (ANCEX) is the sole authority responsible for the export of conventional arms and related technology. A general license may be issued based on the level of sensitivity and the ultimate consignee of the goods. Along with the application for an export license, the exporter must submit an import certificate (certified by the authorized body in the country of origin) or any other document issued by the importer/end-user certifying that the goods are to be used in his/her country and for the stated purpose. After the goods have arrived at their destination, but no later than four months after their arrival, the exporter has to obtain from his/her foreign partner and deliver to ANCEX a delivery verification certificate or any other equivalent document proving that the goods have arrived at their stated final destination.

Romanian companies wishing to export weaponry can negotiate the sales agreement without any prior notification to ANCEX, but cannot have the export license issued without a valid import certificate or a similar document submitted to ANCEX.

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Article 119 of the Romanian Custom Code permits the entry into Romania, with total or partial relief of import duties, and without the application of trade policy measures, of goods meant for re-exportation in the same condition, except for normal wear.

In cases qualifying for partial exemption of customs duties, the duties are levied at 3% of the amount due had the goods been imported. The duty is calculated for every month or partial month in which the goods are under temporary admission but the amount cannot exceed the total due had the goods been imported. In cases qualifying for total exemption of import duties, but which are subsequently imported, the taxation rate will be the one in force at the registration date of the import customs declaration.

Outward processing enables the temporary exportation of Romanian goods in order to be subjected to transformation or processing operations, and, subsequent importation of the resulting products with a total or partial exemption of import duties. Inward processing means to do, on Romanian territory, one or more processing operations of the foreign good meant for re-exportation outside the Romanian customs territory. In this case, import duties are not levied and no trade measures are imposed. Inward processing is carried out by the levying of import duties, and their restitution after re-exportation.

Labeling and Marking Requirements **Return to top**

Manufacturers should be mindful that, in addition to the EU's mandatory and voluntary schemes, national voluntary labeling schemes might still apply. These schemes may be highly appreciated by consumers, and thus, become unavoidable for marketing purposes. Manufacturers are advised to take note that all labels require metric units, although dual labeling is also acceptable until the end of 2009. The use of language on labels has been the subject of a Commission Communication, which encourages multilingual information, while preserving the freedom of member states to require the use of language of the country of consumption.

The EU has mandated that certain products be sold in standardized quantities. Council Directive 80/232/EC provides permissible ranges of nominal quantities, container capacities and volumes of a variety of products: http://europa.eu.int/eur-lex/en/consleg/main/1980/en_1980L0232_index.html.

The EU adopted legislation in 1992, revised in 2000, to distinguish environmentally friendly production through a labeling scheme called the Eco-label. The symbol, a green flower, is a voluntary mark. The Eco-label is awarded to producers who can show that their product is less harmful to the environment than similar such products. This “green label” also aims to encourage consumers to buy green products. However, the scheme does not establish ecological standards that all manufacturers are required to meet to place product on the market. Products without the EU Eco-label can still enter the EU as long as they meet the existing health, safety, and environmental standards and regulations.

There are concerns in the United States that the EU Eco-labeling program may become a de facto trade barrier; may not enhance environmental protection in a transparent, scientifically sound manner; may not be open to meaningful participation by U.S. firms; and may discriminate unfairly against U.S. businesses. The EU Eco-label is a costly scheme (up to EUR 1,300 for registration and up to EUR 25,000/ year for the use of the label, with a reduction of 25 percent for SMEs) and has therefore not been widely used so far. However, the Eco-label can be a good marketing tool and, given the growing demand for green products in Europe, it is likely that the Eco-label will become more and more a reference for green consumers.

Prohibited and Restricted Imports **Return to top**

Prohibited imports include products such as firearms, ammunition, illegal drugs and other similar items that can affect national security, public health or “good morals.”

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An important objective of the Romanian Government during the process of transition to a market economy is the protection of Romanian companies from imported goods being dumped or subsidized. Accordingly, in 1992, Romania introduced anti-dumping duties for goods imported at very low or dumping prices and countervailing duties for goods that have received subsidies. Safeguard measures can also be implemented to assist domestic producers adversely affected by imports, and may consist of additional customs duties or quantitative restrictions (quotas).

In Romania, customs duties are ad valorem duties. For most items, customs valuation is based on the contract value (i.e. transaction value). Customs duties must be paid at the time the goods are imported into Romania. The customs value of imported goods is based on: a) the price of the good in its country of origin, converted into lei at the market exchange rate; and b) charges not included in the price of goods, such as freight, handling and insurance on external routes. Romania values goods on the basis of the WTO Valuation Code (Article VII of GATT).

If documentation concerning the value of imported goods is not available, the specific World Trade Organization provisions will apply; import prices usually charged for such goods or similar items could be then used as the basis for valuation. When the customs office has reason to doubt the accuracy of the information supplied or documents presented for the purpose of customs valuation, it can require the importer to submit additional documents or evidence.

If such documents fail to prove the declared value, the Customs Authority may decline to apply the transaction value method, providing the importer with a written decision upon request. In such cases, provisional customs clearance may be granted on condition that the importer submits a guarantee for the maximum amount that the customs debt could be. If, within 30 days of such provisional clearance, the importer fails to present the requested documents to Customs, the clearance is deemed final.

Romanian National Customs Authority

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Phone: 4021 315 58 58; 4021 315 58 59; 40723 565 101; 40723 565 102; 40723 565 103
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http://www.customs.ro/vami_en/Main

Standards **Return to top**

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Organized standardization activity, covering the whole of the national economy, began in 1948 with the creation of the Standardization Commission of the Council of Ministers of Romania. From1970, the national standards body was the Romanian Standards Institute (IRS), a specialized agency of the central public administration. As of October 31, 1998, the Romanian Standards Association (ASRO) has taken over this position as a specialized private body of public interest in the standardization area, a non-profit association authorized by the Government, replacing in this respect the former Romanian Standards Institute. The principal responsibilities of ASRO are: to carry out standardization policy; to coordinate and guide standardization activity; to coordinate and approve standardization plans; to approve and publish Romanian standards; to represent Romanian interests in international and regional standards organizations; to organize the data bank of standards and technical normative regulations; to organize and coordinate the National System for Quality Certification; to certify conformities to

Romanian standards; to administer the mark of certification; and to promote standardization in the economy.
Romania is an affiliate Member of the European Standards Organization (ESO), and as a result, all products tested and certified in the U.S. to American standards are likely to have to be retested and re-certified to European Union requirements as a result of the EU's particular approach to the protection of the health and safety of consumers and the environment. Where products are not regulated by specific EU technical legislation, they are always subject to the EU's General Product Safety Directive as well as to possible additional national requirements (http://europa.eu.int/comm/consumers/cons_safe/prod_safe/index_en.htm).

Standards Organizations Return to top

European Union standards, created in recent years under the "new approach," are harmonized across the 25 EU member states and European Economic Area countries in order to allow for the free flow of goods. A feature of the new approach is the CE marking. While harmonization of EU legislation can facilitate access to the EU single market, manufacturers should be aware that regulations and technical standards might also become barriers to trade if U.S. standards are different from those of the European Union.

Setting EU Standards is a process based on consensus initiated by industry or mandated by the European Commission and carried out by independent standards bodies, acting at the national, European or international level. There is strong encouragement for non-governmental organizations, such as environmental and consumer groups, to actively participate in European standardization.

Many standards in the EU are adopted from international standards bodies such as the International Standards Organization (ISO). The drafting of specific EU standards is handled by three European standards organizations:

- CENELEC, European Committee for Electrotechnical Standardization (http://www.cenelec.org/);
- ETSI, European Telecommunications Standards Institute (www.etsi.org);
- CEN, European Committee for Standardization, handling all other standards (http://www.cenorm.be/).

Standards are created or modified by experts in Technical Committees or Working Groups. The members of CEN and CENELEC are the national standards bodies of the member states, which have "mirror committees" which monitor and participate in ongoing European standardization. CEN and CENELEC standards are sold by the individual member states standards bodies as well as through the American National Standards Institute (ANSI) http://www.ansi.org/. ETSI is different in that it allows direct participation in its technical committees from non-EU companies that have interests in Europe and gives away its individual standards at no charge on its website. In addition to the three standards developing organizations, the Commission of the European Union plays an important role in standardization through its funding of the participation in the standardization process of small and medium sized companies and non-governmental organizations, such as environmental and consumer groups. It also provides money to the standards bodies when it mandates standards development to the European

Standards Organization for harmonized standards that will be linked to EU technical regulations. All EU harmonized standards, which provide the basis for CE marking, can be found on www.newapproach.org/.

Due to the EU's vigorous promotion of its regulatory and standards system as well as its generous funding for its business development, the EU's standards regime is wide and deep, extending well beyond the EU's political borders to include affiliate members (countries which anticipate becoming full members in the future, such as Albania, Bulgaria, Croatia, Romania, FYR of Macedonia and Turkey). Another category, called "partner standardization bodies" includes the standards organizations of South Africa, Egypt, Serbia/Montenegro and Ukraine, which are not likely to join the EU or CEN anytime soon, but have an interest in participating in specific CEN technical committees. They agree to pay a fee for full participation in certain technical committees and agree to implement the committee's adopted standards as national standards. Many other countries are targets of the EU's technical assistance program, which is aimed at exporting EU standards and technical regulations to developing countries such as the Mediterranean and Balkan countries, some Latin American countries, China and Russia.

To learn what CEN and CENELEC have in the pipeline for future standardization, it is best to visit their websites. CEN's "business domain" page provides an overview by sector and/or technical committee whereas CENELEC offers the possibility to search its database. ETSI's portal (http://portal.etsi.org/Portal_Common/home.asp) leads to ongoing activities.

With the need to more quickly adapt to market requirements, European standards organizations have been looking for "new deliverables" which are standard-like products delivered in a shorter timeframe. While few of these "new deliverables" have been linked to EU regulation, expectations are that they will eventually serve as the basis for an EU-wide standard (www.cenorm.be/cenorm/workarea/sectorfora/isss(ict)/index.asp).

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: http://www.nist.gov/notifyus/

Conformity Assessment Return to top

Conformity Assessment is a mandatory step for the manufacturer in the process of complying with specific EU legislation. The purpose of conformity assessment is to ensure consistency of compliance during all stages of the production process to facilitate acceptance of the final product. EU product legislation gives manufacturers some choice with regard to conformity assessment, depending on the level of risk involved in the use of their product. These range from self-certification, type examination and production quality control system, to full quality assurance system. Conformity assessment bodies for individual member states can be found on the following site: http://europa.eu.int/comm/enterprise/nando-is/home/index.cfm. To promote market acceptance of the final product, there are a number of voluntary conformity assessment programs. CEN's certification systems are the Keymark, the CENCER mark, and the European Standard Agreement Group. CENELEC has its own initiative: www.cenelec.org/Cenelec/Homepage.htm. ETSI does not offer conformity assessment services.

Product Certification

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To sell their products on the EU market of 25 member states as well as Norway, Liechtenstein and Iceland, U.S. exporters are required to apply CE marking whenever covered by specific product legislation. CE marking product legislation offers manufacturers a number of choices and requires decisions to determine which safety/health concerns need to be addressed, which conformity assessment module is best suited to the manufacturing process, and whether or not to use EU-wide harmonized standards. There is no easy way for U.S. exporters to understand and go through the process of CE marking; this chapter is intended to provide some background and clarification.

In the 1980s, the new approach was launched to overcome the lengthy adoption process of "old approach" type legislation. The goal of the European Union's harmonization program under the new approach is to streamline technical harmonization and the development of standards for certain product groups, including, among others: machinery, toys, construction products, electromagnetic compatibility, personal protective equipment, non-automatic weighing instruments, medical devices, gas appliances, hot water boilers, and radio and telecommunications terminal equipment (RTTE). Under the new approach, directives cover essential safety, health and environmental requirements. The three regional European standards organizations, CEN, CENELEC and ETSI, are mandated by the Commission to develop technical standards that are consistent with the essential requirements of EU Directives.

Products manufactured to standards adopted by CEN, CENELEC and ETSI, and published in the Official Journal as harmonized standards, are presumed to conform to the requirements of EU directives. The manufacturer then applies the CE Mark and issues a declaration of conformity. With these, the product will be allowed to circulate freely within the European Union. A manufacturer can choose not to use the harmonized EU standards, but must then demonstrate that the product meets the essential safety and performance requirements. Trade barriers occur when design, rather than performance, standards are developed by the relevant European standardization organization, and when U.S. companies do not have access to the standardization process through a European presence.

The CE mark addresses itself primarily to the national control authorities of the member states, and its use simplifies the task of essential market surveillance of regulated products. Although CE marking is intended primarily for inspection purposes by EU member state inspectors, the consumer may well perceive it as a quality mark.

The CE mark is not intended to include detailed technical information on the product, but there must be enough information to enable the inspector to trace the product back to the manufacturer or the authorized representative established in the EU. This detailed information should not appear next to the CE mark, but rather on the declaration of conformity, the certificate of conformity (which the manufacturer or authorized agent must be able to provide at any time, together with the product's technical file), or the documents accompanying the product.

Accreditation

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The independent certification bodies, known as notified bodies, have been officially accredited by competent authorities to test and certify to EU requirements. However, under the U.S./EU Mutual Recognition Agreements (MRAs), notified bodies based in the United States and referred to as conformity assessment bodies, will be allowed to test in the United States to EU specifications, and vice versa. The costs will be significantly lower and U.S. products will, as a result, become more competitive. At this time, the U.S./EU MRAs cover the following sectors: EMC (in force), RTTE (in force), medical devices (in transition), pharmaceutical (in transition), and recreational craft (in force). The following link lists American and European conformity assessment bodies operating under a mutual recognition agreement: http://ts.nist.gov/ts/htdocs/210/gsig/mra.htm.

Accreditation is handled at member state level. "European Accreditation" (www.european-accreditation.org) is an organization representing nationally recognized accreditation bodies. Membership is open to nationally recognized accreditation bodies in countries in the European geographical area that can demonstrate that they operate an accreditation system compatible with EN45003 or ISO/IEC Guide 58.

Publication of Technical Regulations

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The Official Journal is the official gazette of the European Union. It is published daily and consists of two series covering draft and adopted legislation as well as case law, questions from the European Parliament, studies by committees, and more (http://europa.eu.int/eur-lex/en/index.html). It lists the standards reference numbers linked to legislation (www.newapproach.org/Directives/DirectiveList.asp). National technical regulations are published on the Commission's website (http://europa.eu.int/comm/enterprise/tris/) to allow other countries/interested parties to comment.

Labeling and Marking

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Manufacturers should be mindful that, in addition to the EU's mandatory and voluntary schemes, national voluntary labeling schemes might still apply. These schemes may be highly appreciated by consumers, and thus, become unavoidable for marketing purposes. Manufacturers are advised to take note that all labels require metric units, although dual labeling is also acceptable until the end of 2009. The use of language on labels has been the subject of a Commission Communication, which encourages multilingual information, while preserving the freedom of member states to require the use of language of the country of consumption.

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There are concerns in the United States that the EU Eco-labeling program may become a de facto trade barrier; may not enhance environmental protection in a transparent, scientifically sound manner; may not be open to meaningful participation by U.S. firms; and may discriminate unfairly against U.S. businesses. The EU Eco-label is a costly scheme (up to EUR 1,300 for registration and up to EUR 25,000/ year for the use of the label, with a reduction of 25 percent for SMEs) and has therefore not been widely used so far. However, the Eco-label can be a good marketing tool and, given the growing demand for green products in Europe, it is likely that the Eco-label will become more and more a reference for green consumers.

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http://europa.eu.int/comm/enterprise/standards_policy/

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http://www.efta.int/

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EOTA – European Organization for Technical Approvals (for construction products)
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EOTC – European Organization for Conformity Assessment
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www.eotc.be

Trade Agreements **Return to top**

Romania has concluded bilateral investment protection agreements or treaties with the following countries: Albania, Algeria, Argentina, Armenia, Australia, Austria, Bangladesh, Belarus, Belgium, Luxembourg, Bolivia, Bulgaria, Cameroon, Canada, Chile, China, Croatia, Cuba, Czech Republic, Cyprus, Denmark, Egypt, Finland, France, Gabon, Germany, Ghana, Greece, Hungary, Indonesia, Israel, Italy, Jordan, Kazakhstan, Kuwait, Lebanon, Lithuania, Malaysia, Moldova, Mauritania, Mongolia, Morocco, Nigeria, Norway, Netherlands, Pakistan, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Russia, Senegal, Singapore, Slovakia, Slovenia, South Korea, Spain, Sri Lanka, Sudan, Switzerland, Tunisia, Turkey, Turkmenistan, Ukraine, United Kingdom, USA, Uruguay, Uzbekistan, Yugoslavia.

For further information:

www.mae.ro

Web Resources **Return to top**

Ministry of Public Finance
http://www.mfinante.ro/engl/link.jsp?body=/engl/cod_fiscal/cuprins.htm
National Customs Authority
http://www.customs.ro/vami_en/Main
National Agency for Exports Control
http://www.ancex.ro
European Commission, DG Health and Consumer Protection, Consumer Affairs
http://europa.eu.int/comm/consumers/cons_safe/prod_safe/index_en.htm
European Committee for Electro-technical Standardization
http://www.cenelec.org
http://www.cenelec.org/Cenelec/Homepage.htm
European Telecommunications Standards Institute
http://www.etsi.org
European Committee for Standardization
http://www.cenorm.be
American National Standards Institute
http://www.ansi.org
New Approach Standardization in Europe
http://www.newapproach.org

ETSI Collaborative Portal
http://portal.etsi.org/Portal_Common/home.asp
The CEN Information Society Standardization System
http://www.cenorm.be/cenorm/workarea/sectorfora/isss(ict)/index.asp
European Commission, Enterprise, Single Market, NANDO INFORMATION SYSTEM
http://europa.eu.int/comm/enterprise/nando-is/home/index.cfm
Government-to-Government Mutual Recognition Agreement Information
http://ts.nist.gov/ts/htdocs/210/gsig/mra.htm
European Cooperation for Accreditation
http://www.european-accreditation.org
The Portal to European Union Law
http://europa.eu.int/eur-lex/en/index.html
New Approach Standardization in the Internal Market
http://www.newapproach.org/Directives/DirectiveList.asp
European Commission, Enterprise, Technical Regulations Information Systems
http://europa.eu.int/comm/enterprise/tris
Romanian Agency for Foreign Investments
http://www.arisinvest.ro
Ministry of Foreign Affairs
http://www.mae.ro

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Chapter 6: Investment Climate

Openness to Foreign Investment

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Romania actively seeks direct foreign investment. To encourage it, the government created an Agency for Foreign Investment (ARIS) and took other actions to advertise the country as an attractive investment destination and to improve aspects of the business climate. Nevertheless, despite Romania's marketplace of 22 million consumers, a well-educated workforce, and abundant natural resources, investment remains far below potential. To date, favored areas for American investment include IT and telecommunications, biotechnology, manufacturing, and consumer products.

Romania is gradually moving to strengthen tax administration, enhance transparency, and create legal means to resolve contract disputes expeditiously. There has been progress, but legislative unpredictability continues to undermine investor confidence. Prospective U.S. investors should consult legal counsel to receive up-to-date legal information.

Successful U.S. companies tend to establish a local presence to familiarize themselves with the business climate. Using this expertise, firms develop longer-term strategies and commitments necessary for building lasting partnerships with the government of Romania, local government authorities, labor unions, and local partners. These partnerships can ameliorate potential resistance to foreign investment that remains in some quarters, including nationalistic officials, workers fearful of losing their jobs, and some managers of state-owned enterprises who are not accustomed to market economy business practices.

Investments that involve the public authorities (ministries, mayors, county officials) are generally more complicated than greenfield investments or joint ventures with private Romanian companies. Large deals involving the government - particularly public-private-partnerships and privatizations of key state-owned enterprises – can become stymied by vested political and economic interests and bogged down by inaction within and lack of coordination among governmental ministries. Investors have encountered greater success with less complex deals involving small to medium-sized private and state enterprises.

EU Accession - Romania has worked to create a legal framework consistent with a market economy and investment promotion, and is moving ahead with EU-compatible legislation in its quest to join the European Union. Implementation lags, however. With an increasing number of EU-driven pieces of legislation, it is at times hard for Romania to balance its EU accession goals with its WTO undertakings. The Brussels European Summit (16-17 December 2004) endorsed the **closure of negotiations** and "noted with satisfaction that progress made by Romania in implementing the acquis and commitments entered into as regards, in particular, Justice and Home Affairs and Competition, has made possible to close formally all the outstanding chapters with Romania on 14 December 2004 and accordingly looked forward to welcoming it as a member from January 2007". The most recent report from the EU, however, pointed out that Romania must still carry out many legal changes and economic reforms in 2006, before it is fully prepared for EU membership. There is still no certainty whether Romania will join the EU in 2007, or will have to postpone its accession until 2008. A definitive decission will be announced when the EU issues a final report on Romania's progress, in spring 2006.

The U.S. Department of Commerce recognized Romania as a market economy for anti-dumping investigation purposes in March 2003.

Legal Framework - Romania's legal framework for foreign investment is encompassed under a substantial body of law, largely passed in the late 1990s and subject to frequent revision since. Local counsel should be engaged to navigate through the various laws, decrees, and regulations.

This body of legislation and regulation provides national treatment for foreign investors, guarantees them free access to domestic markets, and allows foreign investors to participate in privatizations. There is no limit on foreign participation in commercial enterprises. Foreign investors are entitled to establish wholly foreign-owned enterprises in Romania (although joint ventures are more typical) and to convert and repatriate 100% of after-tax profits. Foreign firms are allowed to participate in the management and administration of the investment, as well as to assign their contractual obligations and rights to other Romanian or foreign investors.

Foreign investors may engage in business activities in Romania by any of the following methods:

- Setting up new commercial companies, subsidiaries or branches, either wholly owned or in partnership with Romanian natural or legal persons;
- Participating in the increase of capital of an existing company or the acquisition of shares, bonds, or other securities of such companies,

- Acquiring concessions, leases or agreements to manage economic activities, public services, or the production of subsidiaries belonging to commercial companies or state-owned public corporations;
- Acquiring ownership rights over non-residential real estate improvements, including land, via establishment of a Romanian company;
- Acquiring industrial or other intellectual property rights;
- Concluding exploration and production-sharing agreements related to the development of natural resources.

Foreign investor participation can take the form of: foreign capital, equipment, means of transport, spare parts and other goods, services, intellectual property rights, technical know-how and management expertise, or proceeds and profits from other businesses carried out in Romania. Foreign investment must comply with environmental protection, national security, defense interests, public order, and public health regulations.

Privatization - Under current law, the government ministry or agency that has authority over a state-owned company (the State Asset Resolution Authority (AVAS), the Ministry of Economy and Commerce, Ministry of Transportation, Ministry of Communications and Information Technology, or in some cases, local government) also has the authority to privatize it. The 2002 law on privatization requires the setting up of pre-privatization management team to facilitate restructuring of the company and eventual privatization. The law permits the responsible authority to hire an agent to handle the entire privatization process.

Buyers of state-owned companies must negotiate requirements and restrictions concerning the company's purpose, scope of activities, turnover, and social protections in the form of limited layoffs or funding for retraining programs. Privatizing agencies continue the practice of rolling into privatization agreements provisions of previously negotiated collective labor agreements, which are labor-protective and restrict layoffs. Prospective investors are strongly advised to conduct thorough due diligence before any acquisition.

Property and Contractual Rights - Property and contractual rights are recognized, but enforcement through the judicial process can be extremely difficult, costly and lengthy. Foreign companies engaged in trade or investment in Romania often express concern regarding the lack of commercial experience of Romanian courts. Judges generally have little experience in the functioning of a market economy, international business methods, intellectual property rights, or the application of new Romanian commercial law.

Conversion and Transfer Policies **Return to top**

Romanian legislation does not restrict the conversion or transfer of funds associated with direct investment. All profits made by foreign investors in Romania may be converted into hard currency and transferred abroad at the market exchange rate after payment of taxes. However, some conversion and transfer procedures can be time-consuming due to Romanian bureaucracy.

The leu is freely convertible on current-account transactions, in accordance with the IMF's Article VII. Proceeds from the sale of shares, bonds, or other securities, as well as from the conclusion of an investment, can also be repatriated. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital gains, returns on intellectual property or imported inputs.

In 1997, the Romanian government implemented new regulations that liberalized foreign exchange markets. However, procedural delays in processing capital outflows remain, mainly from the lack of a domestic inter-bank electronic system, which is currently under development.

Capital inflows are relatively free from restraint. Only the opening of the ROL/RON deposits by non-residents still requires approval by the Central Bank, in order to prevent inflows of "hot money" from abroad, but this restriction is expected to be removed as capital account liberalization advances. According to Romania's agreements with the European Union and international financial organizations, Romania will gradually implement such liberalization prior to its accession to the EU. Beginning in January 2003, the purchase of securities and real estate abroad was liberalized for Romanian residents.

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The law on direct investment includes a guarantee against nationalization and expropriation or other equivalent actions. The law allows investors to select the court or arbitration body of their choice to settle potential litigation. Since 1989, there have been at least two American expropriation claims; both are pending at this writing. Several cases involving property nationalized during the communist era remain unresolved.

Investors should be aware, when purchasing land or a former state-owned company, that in those cases where a former owner wins title to a privatized asset, it may be restituted in kind and the investor compensated by the public institution that privatized it. If restitution is not possible in kind, the public institution must compensate the former owners. In either case, the current or former owners run the risk of less than fair market value compensation. Prospective investors must conduct a careful due diligence review encompassing potential restitution claims.

Dispute Settlement **Return to top**

Arbitration - Romania recognizes the importance of arbitration in the settlement of commercial disputes. Many agreements involving international companies and Romanian counterparts provide for the resolution of disputes through third-party arbitration. Romania is a signatory to the New York Convention of 1958 regarding the recognition and execution of foreign arbitration awards. Romania is also a party to the European convention on international commercial arbitration concluded in Geneva in 1961 and a member of the International Center for the Settlement of Investment Disputes (ICSID).

Romanian law and practice recognizes applications to other internationally known arbitration institutions, such as the ICC Paris Court of Arbitration and the Vienna United Nations Commission on International Trade Law (UNCITRAL). Romania also has an International Commerce Arbitration Court administered by the Chamber of Commerce and Industry of Romania. Arbitration awards are enforceable through Romanian courts under circumstances similar to those in Western countries.

Bankruptcy - Romania's bankruptcy law contains provisions for liquidation and reorganization that are generally consistent with western legal standards. These laws usually emphasize enterprise restructuring and job preservation. Legal and economic education and the training of judges and lawyers lags behind law-making, which often results in inconsistent outcomes. To mitigate the time and financial costs of bankruptcies, Romanian legislation provides for administrative liquidation as an alternative to bankruptcy. However, investors have complained that the liquidators lack the competence and incentive to expedite liquidation proceedings. For state-owned loss-making companies, state subsidies, accumulation of arrears, debt rescheduling and debt-for-equity swaps are the preferred alternatives to putting such companies through insolvency or bankruptcy procedures. Both state-owned and private companies tend to opt for judicial reorganization to avoid bankruptcy.

Performance Requirements and Incentives **Return to top**

Incentives - Since 1991, Romania's legislation has seesawed between granting, amending and suspending investment incentives. The availability of incentives is dependent on the economic situation, with the government at times suspending incentives in order to tighten fiscal policy. Investors are encouraged to verify the current status of investment incentives.

In April 2002, the government terminated all tax incentives previously available under the law on foreign direct investments, many of which were due to expire. In June 2002, it also terminated VAT-related tax incentives previously available. As a general rule, new fiscal regulations do not grandfather past incentives. However, fiscal changes in 2002 grandfathered some ongoing contracts and investments.

Currently, customs and tax incentives are available for investors in six free trade zones and thirty-six economically disadvantaged regions of the country. In accordance with its obligations under EU accession negotiations, Romania is gradually moving towards non-tax incentives. In line with the revised state-aid law, Romania has capped the state aid available for major investments based on the investment size and location. The state aid available through incentives for companies in free trade zones and disadvantaged zones has been capped at 50% of the investment, and likewise state aid for small and medium-sized enterprises (SMEs) to 50% of the investment. Prospective investors are advised to investigate thoroughly the current status of fiscal incentives.

To reduce initial startup costs, a system of industrial parks and technological parks is being created. Tax incentives are available under the law solely for the industrial park operator, while companies that establish themselves in the park benefit from access to utility hookups and infrastructure, and potential local tax rebates.

Tax System - Since 1999, Romania has revised its tax system to bring it closer to EU models and more in line with the recommendations of the World Bank and IMF. The new government elected in November 2004 introduced a flat tax of 16% on personal income and corporate profits and simplified the tax code. The government is also reforming the tax code to encourage economic growth and foreign investment.

Romania has a 19% value added tax (VAT).

Tariff Preferences - Like many other Central and Eastern European countries, Romania provides tariff preferences for EU goods under its association agreement with the EU. In 2003, Romania came under generalized system of preferences (GSP) scrutiny because of preferential tariff treatment (reverse preferences) it offers the EU, but no formal review was taken because Romania reduced its tariffs on bourbon, the main U.S. industry petitioner. However, Romania took no further action to reduce tariff preferences for other U.S. products. Currently, the U.S. Government is reviewing two petitions from American business groups for review of Romania's GSP status. The GSP review will probably be complete in late 2005 or in 2006

Right to Private Ownership and Establishment **Return to top**

The Romanian constitution, adopted in December 1991 and revised in 2003, guarantees the right to ownership of private property. Mineral, air rights, and similar rights are excluded from private ownership. Under the revised Constitution, foreign citizens can gain land ownership through inheritance.

Foreign investors involved with commercial companies having any foreign capital may acquire land or property necessary for fulfilling or developing the company's corporate goals. If the company is dissolved or liquidated, the land must be sold within one year of the company's closure and may be sold only to a buyer(s) with the legal right to purchase such assets. Foreign investors cannot purchase agricultural land at this time. Under Law 268/2001, investors can purchase shares in agricultural companies that can lease land in the public domain from the State Land Agency

Protection of Property Rights **Return to top**

Mortgages - Law No. 190/1999 on mortgage loans for real estate investments allows a debtor's receivables to be used as a guarantee, and specifically addresses the protection of both borrowers and creditors, in an effort to minimize risk to the lender. Domestic private and foreign capital banks and investment funds freely compete on the mortgage market with the state-supported Banca Comerciala Romana (BCR) and with the state-budget National Housing Agency (ANL). Using its limited state budget resources, ANL targets young applicants and charges interest of 7% per annum in EURO for applicants under 35, and 9% for applicants over that age. Banks charge an average 8.5% per annum for EURO loans, offer more flexible terms, and have greater resources available for mortgages.

Intellectual Property Rights - Romania is a signatory to international conventions concerning intellectual property rights (IPR), including TRIPS, and has enacted legislation protecting patents, trademarks, and copyrights. Romania signed the Internet Convention to protect on-line authorship. While the IPR legal framework is generally good, enforcement is woefully weak. Romania has passed border IPR control enforcement provisions as required under the WTO, yet customs authorities and border police controls remain equally lax.

Patents - Romania is a party to the Paris Convention for the protection of industrial property and subscribes to all of its amendments. Foreign investors are therefore entitled to the same treatment as Romanian citizens. Patents are valid for 20 years. A patent application can be contested for six months. A modern Patent Law (No. 64/91) broadens and clarifies the basis on which a patent is granted. By Government Decision 499 of May 2003, technical enforcement rules on the Patent Law came into force. Several other laws (No. 129/92, on the protection of industrial drawings and designs; No. 16/95, on the protection of integrated circuit designs, etc.) have helped bring Romanian patent legislation up to international standards. Legislation providing for transitory ("pipeline") patent protection was enacted in early 1998. The Romanian Parliament passed legislation to protect confidential drug test data submitted to regulatory authorities for marketing approval. Law 123 of April 2004 clearly articulates data exclusivity provisions, but awaits technical implementation norms.

Trademarks - In 1998, Romania passed a law on trademarks which are generally consistent with international standards. Areas that require improvement are administrative procedures and sanctions. Romania is a signatory to the Madrid Agreement relating to the international registration of trademarks. Trademark registrations are valid for ten years from the date of application and renewable for similar periods.

Copyrights - Romania is a member of the Bern Convention on Copyrights. Its 1996 law on protection of copyrights and neighboring rights is among the most modern in this field. The Romanian parliament ratified the latest versions of the Bern and Rome conventions. The Romanian Copyright Office (ORDA) was established in 1997 and ostensibly oversees copyright enforcement. However, copyright law enforcement is a low priority for Romanian prosecutors, judges, police officers, and customs officers. Some in government, including those responsible for enforcement, view copyright piracy as a "victimless crime." This attitude, coupled with lack of resources, has resulted in weak enforcement of copyright law and the failure to prosecute and punish violators. Copyright infringement in software, music, and video is pervasive throughout Romania. Although on a decline over the past few years, piracy rates are still high. Latest estimated piracy rates by sector are: 73% of business software, 95% of entertainment software, 56% of music, and 55% of video.

Semiconductor Chip Layout Design - Law No. 16/1995 protects semiconductor chip layout design. In order to benefit from this law, the designs must be registered per Government Decision No. 535/1996 with the Romanian Trademark Office.

Transparency of Regulatory System **Return to top**

Cumbersome and non-transparent bureaucratic procedures are a major problem in Romania. Foreign investors point to the excessive time it takes to secure necessary zoning permits, property titles, licenses, and utility hook-ups. Furthermore, regulations change frequently, sometimes literally overnight, often without advance notice. These changes, which can significantly add to the costs of doing business, make it difficult for investors to develop effective business plans.

The failure of the government to consult with the business community has resulted in a less than friendly business investment climate. Recognizing the need for more effective communication with foreign investors and Romanian private businesses, in April 2002, the Romanian government instituted a preliminary consultation procedure before drafting business-related legislation. As a result, some ministries, such as the Ministry of Communications and Information Technology, do consult with businesses, but not all. The new labor code adopted in 2003 is a glaring example of the government's failure to consult with or listen to the business community. The controversial code gives extensive new rights to labor unions and employees and is a significant impediment to new foreign direct investment. The government has pledged to amend some aspects of the code in 2005, but whether it will be able to do so in the face of labor unions' objection to any amendment of the code remains to be seen.

Many foreign investors feel they are unfairly targeted by Romanian tax authorities for audits and reviews and that Romanian authorities view them as "cash cows" that can be milked to fill government coffers. Unlike most Romanian companies, foreign investors generally have good financial records, making investigation easier. Foreign investors also tend to be more conscious of the need to remain in compliance with local laws and regulations. The establishment of a new Minister Delegate for Control in June 2003 to coordinate the audits of the various ministries and government agencies is a hopeful sign that redundant or too-frequent audits and reviews may be eliminated.

The presence of large state-owned and government-subsidized enterprises in the economy is a major impediment to the efficient mobilization and allocation of investment capital. An EU-inspired law on state aid aimed to limit state aid of any form (direct state subsidies, debt rescheduling schemes, debt for equity swaps for utility arrears, or discount prices). However, implementation of the law has been slow and preferential debt rescheduling (and on occasion forgiveness) by the government has continued.

State-aid schemes continue to be non-transparent, resulting in market distortions, and charges of unfair competition from private businesses and industries, which feel penalized by following the rules and being good corporate citizens.

To accommodate EU requirements, the Romanian government revised its state aid legislation in 2004, capping new state aid to businesses in free trade zones and to small and medium-sized enterprises (SMEs) at 50% of the investment. In the administration area, the independent Competition Council was given increased authority to assess compatibility of current state aid schemes with EU legislation. In a positive move, the new board of the Competition Council in June 2004 vetoed state aid to some state-owned companies where company contribution to the restructuring was below 20% of the total financing. While in theory the Competition Council has a key role in keeping state subsidies under control, past experience indicates rescheduling and debt forgiveness schemes may continue.

Efficient Capital Markets and Portfolio Investment Return to top

Capital Markets - Romania seeks to develop efficient capital markets. Ordinance No. 18/93 and Government Decision No. 552/92 established a National Securities Commission (CNVM) charged with regulating the securities market in order to protect investors. The process provides for the registration and licensing of brokers and financial intermediaries, filing and approval of prospectuses, and approval of market mechanisms.

Romania officially reopened the Bucharest Stock Exchange (BSE) on June 22, 1995. On November 20, 1995, the stock exchange made its first transactions after a hiatus of 50 years. The BSE operates a two-tier system that, at present, lists a total of 63 companies, with 19 companies in the first tier. The official index, BET, is based on a basket of the 10 most active stocks listed on the first tier. The BSE has a home page at http://www.bvb.ro

In September 1996, RASDAQ, an over-the-counter stock market, was inaugurated. It is supported by several independent registries and is a depository for Romanian securities. 4,724 companies are listed on the RASDAQ, although fewer than 200 companies are actively traded on an average day. RASDAQ has a home page at http://www.rasd.ro/.

2004 marked the start of the technical merger of the two exchanges, when a first group of 5 BER listed issuers was selected to start trading on BVB operated platform: Aversa Bucuresti, Comcereal Alexandria, Electromagnetica Bucuresti, Severnav Dr. Turnu Severin and UPET Târgoviste. The new Capital Markets Law 297/2004 allows the Bucharest Stock Exchange to incorporate as a stock company, which permits its merger with the RASDAQ.

Despite the presence of two stock exchanges, Romanian capital markets have developed more slowly than might be expected. This is due in part to legislative instability, insufficient and non-transparent privatization, lack of performance and liquidity of most listed companies, high inflation until recently, and poor corporate governance. In 2002, the government issued several ordinances designed to increase liquidity and transparency and encourage portfolio investment. The government also granted additional power to the CNVM. Securities Collective Placement Organizations are now allowed to invest locally and internationally in foreign currency-denominated instruments.

Tight competition has brought trading fees down, but the lack of liquidity among listed companies makes it difficult to place large purchase orders. This, in conjunction with non-transparent disclosures and the lack of annual audit reports, tends to discourage large institutional investors. Country funds, hedge funds, and venture capital funds continue to participate actively in the capital markets.

The Romanian government has responded to complaints by U.S. investment funds regarding the abuse of minority shareholder rights by including some protections in a

2002 government ordinance on securities, financial investments and regulated markets. The new reforms allow shareholders owning more than 10% of a stock to request a general shareholders meeting. Dividend payments must now remain in effect six months after the announcement. An extraordinary shareholders' meeting must approve purchase or sale/rent/lease of fixed assets worth over 20% of the company's total assets. Law 525 of July 2002 ratified the ordinance on securities and regulated markets, and was complemented by Law 512 on commodity exchanges and derivatives.

Banking Sector - Romania's largest bank, the state-owned Romanian Commercial Bank, with assets close to $8 billion and own funds standing at around $1.2 billion, is under a privatization process. The latest information on the market shows the winner (Erste Austria or Millenium BCP – Portugal) will be picked and the privatization contract signed in December 2005. Whoever wins this battle will have to sign a check for more than 3bn euros for 61.88% of BCR. The money is scheduled to be transferred in April 2006.

After BCR, of the 40 banks operating in Romania, the Romanian Bank for Development (BRD, Societe General), with a market share of 13%, is the second largest bank, followed by Raiffeisen Bank 9.2%). The 2005 merger between Bank Austria Creditanstalt – Tiriac and HVB Bank brought a new player on the market, ranked fourth with a share of 7.5%.

Removing non-performing assets from the banking sector cost Romania $2.2 billion, almost 7% of the annual GDP in the late nineties. According to the Romanian Central Bank, non-performing past due and doubtful loans now represent only 0.43% of the total loan portfolio, but this is likely an underestimate.

The Romanian government actively encourages foreign investment in the banking sector, and there are no restrictions on mergers and acquisitions. Few potentially hostile take-over attempts have been reported in Romania, with the result being that Romanian law has not focused on limiting potential mergers or acquisitions. There are no Romanian laws prohibiting or restricting private firms' free association with foreign investments. Capital account liberalization is in progress and scheduled to be completed by 2005, with the exception of land purchase by non-residents, for which Romania was granted a seven-year phase-in period by the EU.

Political Violence **Return to top**

There have been no incidents in Romania involving politically motivated damage to foreign investments (projects and/or installations). Major civil disturbances are not expected to occur in Romania in the near future.

Corruption **Return to top**

According to Transparency International, Romania is included in the tier of countries considered the most corrupt. U.S. firms frequently complain of government and business corruption in Romania. The customs service, municipal zoning offices, local financial authorities, and other bodies are influenced to some degree by corruption. In some cases, demands for payoffs by mid- to low-level officials reach the point of harassment.

Romanian law and regulations contain provisions intended to prevent corruption, but enforcement is generally weak. Corruption is currently punishable under a variety of statutes in the penal code. Prison sentences are sometimes imposed, but powerful and influential individuals often evade prosecution.

The government announced a National Anti-Corruption Plan in spring 2003 and passed an anti-corruption law in April 2003. The plan contains an impressive list of measures and commitments that constitute key benchmarks for judging the government's commitment to combat corruption. The implementation of these measures and commitments has lagged, undercutting the state's professed commitment to follow through on its anti-corruption policies.

A new criminal code came into effect in 2003. A money laundering law was passed in February 1999. With U.S. help, the Romanian government established in September 2002 a new institution – the National Anti-Corruption Prosecutors' Office (PNA), staffed by prosecutors and police to combat corruption. Despite these measures, most anti-corruption efforts remain focused on low-level corruption and increasingly, functionaries representing opposition political parties. To date criminal prosecutions of only low- and mid-level officials and functionaries have been carried-out to completion.

Romania is a member country of the Southeast European Cooperation Initiative (SECI), and it has signed and ratified the Agreement on Cooperation to Prevent and Combat Trans-border Crime of May 1999. Bucharest hosts the SECI Regional Center for Combating Corruption and Organized Crime, and Romania is one of the three members of the Joint Cooperation Committee.

To reduce corrupt practices in public procurement, in March 2002 a web-based e-procurement system was inaugurated, which can be accessed at http://www.e-licitatie.ro/. The system is a transparent listing of ongoing auctions and closed auctions, with the name of the winners and the closing prices made available to the public. The use of e-licitatie has increased government efficiency, reduced government vulnerability to corruption, and improved fiscal responsibility in government procurement. E-procurement increased from 159 government clients and 600 suppliers in its initial months matching the procurements of 708 state entities with offers from 9,000 bidders. With a turnover of EUR 300 million in 2003, the system resulted in an average 22% savings rate, saving the budget EUR 100 million in two years. Initially used solely for basic standard products, the program has grown to be applied for complex projects (e.g. state-financed sports halls for public schools). The system does not take the human element completely out of the decision-making process, as the bids for complex supplies and projects are still reviewed by appraisal committees. Pre-qualification criteria for prospective bidders and contract follow up by the end-user also leave room for corruption.

Court System - The Romanian judicial system suffers from corruption, inefficiencies, lack of competence and excessive workloads. Divergent and often contradictory rulings have alienated both investors and ordinary citizens and discredited the Romanian judicial system. Companies routinely complain that commercial disputes take too long to resolve through the court system and once a verdict is reached, court orders are not enforced. Low salaries result in clerks, attorneys and judges being susceptible to bribes or other "extra-judicial" payments, most commonly to "speed up" litigation or to assure a particular judge is assigned to the case. Courts are overburdened and the number of magistrates and judges too small. Significantly, litigants in virtually all cases have unrestricted right to appeal their cases all the way to the High Court of Cassation and Justice, which clogs court dockets throughout the system and introduces lengthy delays.

Cyber Crime - Romania has one of the world's highest occurrences of Internet credit card fraud. The problem, which surfaced notably in the fall of 1998, has escalated to a steady stream of complaints, some of which involve U.S. companies being defrauded of millions of dollars. The most common problems result from the use of stolen credit card numbers for the purchase of goods on-line. An e-commerce law that defines and punishes cyber crime came into force in July 2002.

Romanian hackers also have gained notoriety for hacking into U.S. companies' servers and stealing proprietary information, including customer credit card data. There have been cases where Romanian hackers have offered to sell the U.S. company the means by which they hacked the company's server. On other occasions, the hackers have threatened to release the sensitive data or the means to hack the system unless a specific amount of money is paid. Several recent investigations into and arrests of cyber crime by Romanian authorities may serve as a deterrent to new hackers.

Bilateral Investment Agreements **Return to top**

The U.S.-Romanian Treaty on the reciprocal encouragement and protection of investment (signed May 1992, ratified by the U.S. in 1994) guarantees national treatment for U.S. and Romanian investors. It provides a dispute resolution mechanism, liberal capital transfer, prompt and adequate compensation in the event of an expropriation, and avoidance of trade-distorting performance requirements. In response to EU pressure on acceding countries to abrogate their bilateral investment treaties (BITs) with the U.S., the U.S. government negotiated an agreement with the EU and eight accession countries, including Romania, to cover any possible inconsistencies between the BITs and the countries' future EU obligations. After two years of negotiations, the U.S. and EC signed a political understanding in Brussels, which preserved, in slightly amended form, the BITs with the Czech Republic, Estonia, Latvia, Lithuania, Poland, the Slovak Republic, Romania, and Bulgaria. The Senate ratified the new BITs in May 2004. Romania's Parliament ratified the revised BIT, which will take effect once Romania becomes an EU member.

Romania has concluded bilateral investment protection agreements or treaties with the following countries: Albania, Algeria, Argentina, Armenia, Australia, Austria, Bangladesh, Belarus, Belgium, Luxembourg, Bolivia, Bulgaria, Cameroon, Canada, Chile, China, Croatia, Cuba, Czech Republic, Cyprus, Denmark, Egypt, Finland, France, Gabon, Germany, Ghana, Greece, Hungary, Indonesia, Israel, Italy, Jordan, Kazakhstan, Kuwait, Lebanon, Lithuania, Malaysia, Moldova, Mauritania, Mongolia, Morocco, Nigeria, Norway, Netherlands, Pakistan, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Russia, Senegal, Singapore, Slovakia, Slovenia, South Korea, Spain, Sri Lanka, Sudan, Switzerland, Tunisia, Turkey, Turkmenistan, Ukraine, United Kingdom, USA, Uruguay, Uzbekistan, Yugoslavia.

OPIC and Other Investment Insurance Programs **Return to top**

The Overseas Private Investment Corporation (OPIC) began operation in Romania in late 1992, following the signing of an investment incentive agreement in June 1992. Romania has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1992.

Labor **Return to top**

Romania offers a large skilled labor force at comparatively low wage rates in most sectors. The university system is regarded as high quality, particularly in technical fields. Romanian craftsmen, engineers, and software designers win kudos for quality work from foreign managers. With appropriate on-the-job training, local labor performs well with new technologies and more exacting quality requirements. However, there continues to be a shortage of western-trained managers.

Since the revolution of December 1989, labor-management relations have occasionally been tense as a result of economic restructuring efforts and personnel layoffs. In late 2004, unemployment officially stood at 6.1% of the country's active labor force. Trade unions are vocal defenders of their prerogatives. The government adheres to the ILO convention protecting worker rights.

Many Romanian state enterprises maintain that the first priority for an enterprise is to preserve jobs rather than turn a profit. Individual dismissals for poor performance must be carefully documented and are subject to legal challenge by the affected employee. The Labor Code passed in 2003 was considered very rigid, certain clauses being overly restrictive and not suitable for a market economy. The Code made it harder for employers to dismiss employees for poor performance and foreign investors often encountered labor problems when they tried to trim staff in loss-making product lines. In June 2005, the Romanian Government approved an Emergency Ordinance which amended several articles of the Labor Code, in an attempt to ensure more labor market flexibility. Although many foreign investors point out that some important provisions which restrict labor flexibility remain part of the updated Labor Code, they still consider it an improvement over the old one.

Even after the reductions scheduled for January 1, 2006, payroll taxes remain steep. Because of high taxation, a significant number of Romanians (estimated between 25-30% of the labor force) work in the "underground economy" as "independent contractors" where their salaries are neither recorded nor taxed.

Current law makes it very costly to locate expatriate staff in Romania. Foreign companies often resort to expensive staff rotations, special consulting contracts, and non-cash benefits. As a rule, work permits are issued for a period of six months for a fee of $200, and may be renewed for subsequent six-month periods at $100 per renewal.

Foreign-Trade Zones/Free Ports [Return to top]

Free Trade Zones (FTZs) operate under Law No. 84/1992. General provisions include unrestricted entry and re-export of goods, and an exemption from customs duties. The law further permits the leasing or transfer of buildings or lands for terms of up to 50 years to corporations or natural persons, Romanian and non-Romanian.

Currently, there are six FTZs: Sulina (located at the mouth of the Danube); Constanta-Sud Agigea (located close to the port of Constanta, at the entrance to the Black Sea-Danube Canal); Galati (located about 100 km from the Danube mouth); Braila (located 30 km up the Danube from Galati); Curtici-Arad (located about 30 km from the border with Hungary); and Giurgiu (located on the Danube, 60 km south of Bucharest).

The Administrator of each FTZ is responsible for all commercial activities performed within the zone. FTZs are under the authority of the Ministry of Transportation, Construction and Tourism.

Foreign Direct Investment Statistics [Return to top]

Despite some substantial gains in recent years, direct investment flows into Romania have remained relatively low compared to other countries in the region. According to data provided by the Romanian Trade Registry, cumulative foreign direct investment for the period 1990-end-October 2005 totaled $15.04 billion, of which $3.20 billion represents 2004 inflows. Because Romanian capital exports were largely prohibited, as of end-September 2005 Romanian investments abroad total only $297.5 million. The most significant privatizations to be launched in 2005 were Banca Comerciala Romana (BCR), National Savings House (CEC) and Electrica Muntenia Sud, and they will likely be completed in 2005 and 2006.

At the end of 2004, cumulative foreign direct investment (FDI) since 1990 represented the equivalent of 11.3% of GDP. 2004 FDI inflows represented 3.9% of GDP.

Preferred areas for foreign investment include:

- Automobile and automotive components (Renault, Daewoo, Daimler Benz, Siemens, Continental, Alcoa, Delphi Packard, Johnson Controls, Honeywell Garrett, Michelin);
- Banking and finance (Citibank, Société Générale, ABN Amro Bank, AIG, ING Barings, Hypovereinsbank, Volksbank, Raiffeisen, Banca di Roma);
- Telecommunications (Qualcomm, France Telecom, OTE, Telesystem International Wireless Services, Airtouch-Vodafone);
- Hotels (Hilton, Marriott, Best Western, Howard Johnson, Sofitel, Crowne Plaza, Accor);
- Manufacturing (Timken, Trinity Industries, General Electric, LNM, Marco, Solectron, Holcim, Lafarge, Heidelberg);
- Consumer products (Procter and Gamble, Unilever, Henkel, Colgate Palmolive, Kraft, Coca-Cola, Parmalat, Danone);

- Retail chains (Metro, Delhaize, Carrefour, Cora, Billa, Selgros).

Officially, the value of U.S. direct investment in Romania as of September, 2005, was $786.8 million. The U.S. is the sixth-ranked direct investor after the Netherlands, Austria, France and Germany. U.S. foreign direct investment represented 6.8% of the total. However, the official statistics do not count U.S. firms investing through foreign subsidiaries. American investment has mainly been in the telecommunications, manufacturing, agricultural and consumer product sectors. Significant U.S. direct investors (or with branch or representative offices) include:

- Advent Central and Eastern Europe – investment fund
- AIG – insurance
- AIG New Europe Fund – investment fund
- Alcoa – automotive, aluminum processing
- Bunge – food
- Citibank – banking
- Coca-Cola – beverage, food
- Colgate Palmolive – consumer products
- Cooper Cameron – gas field equipment manufacturer
- Delphi Packard – automotive
- General Electric – aircraft components
- Hoeganess – iron powder for automotive
- Honeywell Garrett – automotive
- Johnson Controls – automotive
- Kodak – film processing
- Kraft – food
- Marco Group – aluminum processing
- McDonald's – food
- New Century Holding – investment fund
- Philip Morris – tobacco products
- Procter and Gamble – consumer products
- Qualcomm – telecommunications
- Romanian-American Enterprise Fund – investment fund
- Sara Lee – apparel
- Solectron – contract manufacturing (ICT)
- Timken – industrial bearings
- Trinity Industries – railcars
- UPC – cable television operator
- Washington International Group – engineering

In addition to these companies, the European Bank for Reconstruction and Development (EBRD) remains the single largest investor (debt plus equity) in Romania with some $2.65 billion invested. The U.S. is a 10% shareholder in the EBRD.

Romania's biggest investors are:

- Holland – $1.85 billion (17.9% of total FDI): ICT, banking, insurance, consumer products, food;

- France – $1.07 billion (10.3%): food, ICT, manufacturing, cement, agriculture, banking, hypermarkets;
- Germany – $880.3 million (8.4%): insurance, food, machine construction, banking, chemicals;
- U.S. – $704.3 million (6.8%): ICT, automotive, banking, hospitality, manufacturing, consumer products.

Web Resources **Return to top**

Romanian Government
http://www.guv.ro
Romanian Agency for Foreign Investments
http://www.arisinvest.ro
The Authority for State Assets Recovery
http://www.apaps.ro/index.php?lang=en
Ministry of Economy and Commerce
http://www.minind.ro
Ministry of Public Finance
http://www.mfinante.ro
International Centre for Settlement of Investment Disputes
http://www.worldbank.org/icsid
National Housing Agency
http://www.anl.ro
Romanian Copyright Office
https://www.orda.ro
Ministry of Communications and Information Technology
http://www.mcti.ro
National Securities Commission
http://www.cnvmr.ro
Bucharest Stock Exchange
http://www.bvb.ro
RASDAQ
http://www.rasd.ro
National Bank of Romania
http://www.bnr.ro
National Anti-Corruption Prosecutors' Office
http://www.pna.ro
Romanian Government's Web-Based e-Procurement System
http://www.e-licitatie.ro
Overseas Private Investment Corporation
http://www.opic.gov
Ministry of Labour, Social Solidarity and Family
http://www.mmssf.ro/e_index.htm

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Chapter 7: Trade and Project Financing

How Do I Get Paid (Methods of Payment) **Return to top**

The most widely accepted method of payment is by confirmed, irrevocable letter of credit, as it provides the greatest protection to the seller against payment delays. Of the other arrangements available, unconfirmed letter of credit terms are preferable to cash-against-documents or open-account terms. Contracts should stipulate interest payments in case the importers are unable to meet their obligations on time.

Barter and counter-trade, co-production arrangements, deferred payment plans, and self-financing packages are also used to facilitate exports.

How Does the Banking System Operate **Return to top**

Romania made tremendous progress in strengthening its banking sector from virtual collapse in 1995-99 to its current strong position. The number of foreign banks in Romania has increased from five (1990) to 30 (2005), and the quality of local banking has improved greatly. Commercial banks are authorized to engage in a full range of traditional banking functions.

Restructuring the Romanian banking system has continued with the technical assistance of the World Bank, IMF, USAID, EBRD and IFC. The Asset Resolution Authority has assumed responsibility for non-performing loans, initially from Bancorex, and later for other state-owned banks, including the Agricultural Bank and BCR. To date it has collected $370.2 million. In the private banking sector, the NBR closed the failing International Bank of Religions (BIR), Albina Bank, Turkish-Romanian Bank (BTR), Romanian Discount Bank (BRS) and Bank for Development and Investment (BID). While cleaning up the Romanian banking system was costly – about 7% of Romania's GDP – the risk of a banking collapse has, for all intents and purposes, disappeared.

All commercial banks now operating in Romania have international correspondent relationships, and all are members of the NBR's domestic inter-bank payment system. Although this system has reduced float and payment clearance delays, businesses may still experience delays. The implementation of the inter-bank electronic settlement system began in 2005.

Foreign-Exchange Controls **Return to top**

In early 1997, the Romanian government lifted all FOREX restrictions. The Leu is fully convertible for business (current account) purposes, with the central bank applying a managed float to reduce currency fluctuations. Foreign investors may freely repatriate profits and dividends in hard currency. Leu account-holders are permitted to purchase goods domestically. Capital exports, which are now permitted, will be fully liberalized before the end of the EU accession process. Among the most important steps taken lately in order to achieve the capital account liberalization are the following: beginning 2003, Romanian residents may make portfolio investments abroad; beginning 2004, Romanian residents may open banking accounts abroad by the prior authorization of Romania's central bank; beginning April 2005, non-residents may open Leu accounts in Romania.

U.S. Banks and Local Correspondent Banks **Return to top**

Major Romanian banks have correspondent banks in the United States. Foreign banks with offices in Bucharest also have correspondent U.S. banking arrangements. Citibank is the most well known U.S. financial company in Romania.

Project Financing **Return to top**

The cost of borrowing locally remains high. As of September 2005, the commercial banks' average Leu lending rate for non-banking customers decreased to 17.78% per annum, from 25.2% in September 2004, whereas the commercial banks' average deposit interest dropped to 5.18%, from 11.16% in September 2004.

The Central Bank has fought high inflation (17.8% in 2002) by cutting liquidity in the banking system. The effect of the Central Bank's tight monetary policy has severely hit small and medium-sized enterprises. Most foreign companies find that small and medium enterprises in Romania have limited access to capital. Preferential credits are no longer granted for seasonal agriculture.

Romania's Export Import Bank grants short and medium term loans and guarantees to exporting SMEs, in ROL, USD and EUR. Export credits are granted during pre-delivery or post-delivery stages. Romania's Export-Import Bank also grants revolving credit lines targeting production for export.

The U.S. Ex-Im Bank provides guarantees and direct loans for U.S. exports to Romania. Since opening for business in 1972, it has provided more than $1 billion in financing. Although most of the credit has been for exports to the Romanian government, private sector and sub-sovereign financing is available as well.

To promote U.S. agricultural exports to Romania, the U.S. Department of Agriculture (USDA) makes export credit guarantees available to Romania. USDA announced in April 2005 the availability of $25 million in credit guarantees for sales of U.S. agricultural commodities to the Southeast Balkan region under the Commodity Credit Corporation's (CCC) Export Credit Guarantee Program (GSM-102) for fiscal year 2005. The Southeast Balkan Region includes Albania, Bulgaria, Macedonia, Moldova and Romania. Beginning April 2005, exporters may apply for credit guarantees on a first-come, first-served basis to cover sales of any of the commodities specified in the GSM list of commodities published in Foreign Agricultural Service program announcement PR 0346-02 issued Sept. 24, 2002, or as superseded. The latest commodity list can be obtained by accessing the FAS home page at http://www.fas.usda.gov/. The allocation does not assign dollar amounts to any of the commodities specified in the GSM list of commodities, providing buyers and sellers maximum flexibility in arranging the size of their transactions within the scope of the overall allocation. Any bank approved by CCC for the Southeast Balkan Region is eligible. For a complete list of eligible banks, refer to the CCC "GSM Program Foreign Bank Obligors" web page located at http://www.fas.usda.gov/excredits/foreignbanks.html Exporters are advised to obtain from their foreign buyer the name of the CCC-approved foreign bank that will be opening the letter of credit.

Insurance - Ex-Im Bank issues short-term (180 days) coverage for exports to Romania. Medium- and long-term coverage is only available for public sector transactions. Ex-Im Bank provides insurance through its affiliated agent, the Foreign Credit Insurance Association.

Financing packages for Romanian projects generally include one or more multilateral lenders – the World Bank (or its International Finance Corporation), EBRD, the European Investment Bank – plus foreign and Romanian commercial banks. Priority projects supported by multilateral institutions are usually related to infrastructure modernization in transportation, power generation, telecommunications, and environmental protection.

The Ministry of Finance issues Romanian government guarantees for projects up to $30 million. The Ministry of Finance must submit guarantees for larger projects to an inter-ministry committee and the cabinet for approval. Government guarantees are approved on the basis of feasibility studies, which must contain a clear description of the financial package for the project. Viable private sector projects may be jointly supported by the government and IFIs.

U.S. project financing and insurance can be provided by the U.S. Overseas Private Investment Corporation (OPIC), which offers direct loans, loan guarantees, and political risk insurance, as well as equity financing through OPIC-supported investment funds. OPIC began operations in Romania in 1992. To date, it has provided $23 million in financing for nine projects and $93.7 million in political risk insurance for an additional five projects in Romania. OPIC can co-finance with other bilateral and multilateral development finance institutions, such as the EBRD and IFC.

Romania became eligible for U.S. Trade and Development Agency (TDA) program funding in November 1991. Since then TDA has provided more than $16 million for feasibility studies, pilot projects and orientation visits covering many sectors of the Romanian economy. Romania was TDA's “Country of the Year” for 2003.

The U.S. government-funded, privately-managed Romanian-American Enterprise Fund (RAEF) started operation in June 1995, with a capitalization of $50 million. The purpose of the fund is to promote private sector development in Romania. It has authority to make equity investments and loans, and to offer technical assistance to promote new private initiatives and privatization, with special emphasis on the promotion of small and medium-sized businesses. RAEF may support joint ventures pairing U.S. investors with Romanian partners.

Financing from international sources also includes grants for technical assistance. The most extensive assistance of this type is from the EU's PHARE program and from the United Nations. Individual countries have also initiated technical assistance programs

Web Resources **Return to top**

Export-Import Bank of the United States
http://www.exim.gov
Country Limitation Schedule
http://www.exim.gov/tools/country/country_limits.html
OPIC
http://www.opic.gov
Trade and Development Agency
http://www.tda.gov
SBA's Office of International Trade
http://www.sba.gov/oit
USDA Commodity Credit Corporation
http://www.fsa.usda.gov/ccc/default.htm
U.S. Agency for International Development
http://www.usaid.gov
World Bank, Multilateral Development Bank
http://www.worldbank.org
International Financial Corporation
http://www.ifc.org
International Monetary Fund
http://www.imf.org
European Bank for Reconstruction and Development
http://www.ebrd.com
U.S. Department of Agriculture, Foreign Agricultural Service
http://www.fas.usda.gov
Commodity Credit Corporation's (CCC) Export Credit Guarantee Program (GSM)
“Program Foreign Bank Obligors”
http://www.fas.usda.gov/excredits/foreignbanks.html

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Chapter 8: Business Travel

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Special customs do not figure significantly in business dealings in Romania; Western business standards apply. Romanians have genuine regard and admiration for Americans. The quality of U.S. products and services, the efficiency of American management practices, and the reliability of U.S. business partners are widely recognized.

Romanian nationals are friendly, and foreigners are usually made very welcome. Shaking hands is the normal form of greeting (although, as in other eastern-European cultures, a man may kiss the hand of a woman in greeting); normal courtesies are observed when visiting people's homes. It is important to take business cards to meetings and to give a card to each person present.

Flowers are very popular in Romanian culture, and are given for almost every occasion, including name day celebrations, weddings, and visits to Romanian homes. Casual wear is the most suitable form of dress for most social occasions, but attire may be more formal when specified for entertaining in the evening or in a restaurant or theater. The Romanians use the formal addresses of "domnul" (sir) and "doamna" (madam) when addressing one another, although first names are used among younger people and in business with English-speaking partners. It is customary to say "pofta buna" (bon appetit) before eating, and "noroc" (cheers) before drinking.

Travel Advisory **Return to top**

General and country-specific travel information can be found on the U.S. Department of State's web site: http://travel.state.gov/travel/warnings_consular.html.

Visa Requirements **Return to top**

American citizens (whether tourists or business people) do not need Romanian visas for visits of up to 90 days per half year. An extension of stay (or stay permit) can be requested from the local offices of the Authority for Aliens. In Bucharest, the Authority for Aliens (Autoritatea pentru straini) is located at Str. Luigi Cazzavillan no. 11 (behind Cismigiu Park). Foreigners who overstay are subject to heavy fines and may not be allowed to leave unless they obtain an exit permit.

Americans who lose their passports may contact the U.S. Embassy in Bucharest and request a temporary one. Issuance of this passport may take more than one day. Americans who receive a replacement passport must obtain an exit permit from the Authority for Aliens.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: http://travel.state.gov/visa/index.html

United States Visas.gov: http://www.unitedstatesvisas.gov/

http://bucharest.usembassy.gov/main.html

Telecommunications **Return to top**

Local wired-telephony service is dependable. There are four mobile telephony operators, two of which (Connex – recently acquired by UK Vodafone, and Orange) have extensive coverage of the country and also offer roaming services in a large number of countries, the United States included. International telephone connections via fixed or mobile telephony are generally good. Romania is seven time zones ahead of U.S.-Eastern standard time. Internet service is widely available, in hotels and Internet cafes. Zapp Mobile, a subsidiary of Qualcomm, offers high-speed wireless Internet service.

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TAROM, the Romanian national airline, serves major points in Romania and Europe. International carriers currently serving Romania include Aeroflot (Russia), Air France, Alitalia, Austrian Airlines, Balkanair (Bulgaria), British Airways, CSA (Czech Republic and Slovak Republic), El Al (Israel), KLM (The Netherlands), LOT (Poland), Lufthansa (Germany), MALEV (Hungary), Northwest Airlines (operated by KLM), Swissair, Turkish Airlines, Delta (operated by Air France) and United Airlines (operated by Lufthansa).

Most major cities of Romania have airline service nearby and are connected to the Bucharest hub. In addition to Henri Coanda, Bucharest's main international airport, Bucharest-Baneasa, Timisoara, Constanta-Kogalniceanu, Cluj-Napoca, Sibiu, and Targu Mures airports are also ports of entry.

In Bucharest, hotels such as Marriott, Hilton, Sofitel and Crowne Plaza provide scheduled shuttle bus service to and from the Henri Coanda Airport; rental car service is also available. Pick-up for major hotels can be provided by the Sky Services company at the Henri Coanda Airport. In addition, taxis are readily available at Henri Coanda Airport for $10-15 to downtown Bucharest. Most taxis have meters, but to be safe, price should be agreed upon prior to hiring a taxi.

Romania is well served by an international and domestic rail system. The daily Wiener-Waltzer Express from Vienna takes roughly 20 hours to reach Bucharest. The domestic motorway network is extensive, but the road quality is poor. Roads in Bucharest are in a near-constant state of being upgraded. Winter driving in Romania often requires navigating sometimes hazardous mountain passes. Driving after dark at any time of year requires care because of pedestrians, animals, or slow-moving vehicles often encountered on the roadway.

Language **Return to top**

The official language of Romania is Romanian. This language, which uses the Latin alphabet and is a Romance language, evolved from the Latin used in the Roman colony of Dacia. English, French and German are also widely spoken.

Health **Return to top**

At present, the medical system is very much lagging behind reforms made in other sectors of society. For this reason, it has not contributed to improvements in the quality of health care and of people's access to these services nor has it lead to decreases of mortality and morbidity rates.

Budgetary allocations to the health-care sector as well as the per capita expenditures made on health care ranks Romania last among the candidate countries recently entering the European Union. Because of this severe lack of financing, the public medical system and institutions are poorly managed which has dramatic effects upon the inefficiencient way citizen's public health contributions are utilized.

However, more private clinics are opening each year. Major hotels have doctors on call. In case of an emergency, travelers in Bucharest should go to an Emergency Hospital (Spital de Urgenta). Address in Bucharest: Calea Floreasca 8 (tel: 40-21 317 01 21)

Local Time, Business Hours, and Holidays **Return to top**

Local time is Standard GTM + 2 hours.

Business hours are usually between 9 a.m. and 5 p.m.

Holidays:

January 1-2 (New Year)
(Orthodox Easter Monday)
May 1 (Labor Day)
December 1 (Romanian National Day)
December 25-26 (Christmas)

Temporary Entry of Materials and Personal Belongings **Return to top**

Articles exempted from duty include: personal effects and medicine required, in rational amounts, for the duration of the trip, personal jewelry, personal laptops, books, publications and recordings of all types, slides and other similar items for personal use, articles received as prizes or distinctions at official events.

According to the Government Ordinance no. 59/2003 published in the Official Gazette no. 615 of 29.08.2003, approved and modified by the Law no. 545 of 18.12.2003, published in the Official Journal of Romania no. 915 of 20.12.2003, article 45 (1) are exempted from the import duties, under the reserve of the article 46-49, the goods contained in the travellers luggage which are from a third country, on the condition that these are not introduced for commercial aims.

Art. 45 (2) it is on record that: In application of the provisions of the paragraph (1) shall mean:

a) Personal luggage – the set of luggage which the traveller is able to produce at the custom checkpoint upon entrance into the country, and also luggage produced to the same authority on a subsequent date, with the condition that it can be shown that the luggage was registered on the moment of his departure, as accompanied luggage to the traveler which is transported to Romania from a third country.
b) Goods which are not introduced for commercial purposes, the goods introduced in luggage which are of occasional nature and are goods destined exclusively to the personal use of the traveller or his family or goods destined to be offered as gifts and which by its nature or quantity have no commercial character.

Art. 46 it is on record that: The exemption provided at the article 45 for the goods mentioned bellow, would be applied in the following quantitative limits on the traveller:

1. Tobacco products: 100 cigarettes or 200 leaves cigarettes (cigarettes having a maxim weight of 3 grams/piece) or leaves cigarettes or 250 grams tobacco for smoking or proportional combination of these products;
2. Alcohol and alcoholic beverages:
   a) Distilled beverages and spirituous with an alcohol contain which exceed 22% per volume; non-treated ethylic alcohol of 80% of volume and over: 1 litre; or

b) Distilled beverages and spirituous and bitters on the basis of wine or alcohol, tafia, sake or similar beverages with an alcoholic contain which no exceed 22% per volume; frothy wines, liqueurs: 2 litre or a proportional combination of these products; and
c) Light wines: 2 litres

3. Perfumes: 50 ml and toilet water 250 ml.
4. Medications: the necessary quantity in order to satisfy the personal needs of the travellers.

Travellers under 18's years of age are not able to benefit by any relief for the goods referred to at points 1 and 2 above.

Art. 47 it is on record that: The exemption mentioned at article 45 will be granted up to a total value of 175 EURO/traveller for other goods than those mentioned at article 46. For travellers under 15 years of age the exemption will be granted up to a value of 90 EURO/traveller

In addition to the 175 Euro limit mentioned above, travelers may bring into Romania goods, in accompanied or non-accompanied luggage, with payment of duty.

Web Resources **Return to top**

U.S. Department of State
http://travel.state.gov/travel/warnings_consular.html
Authority for Aliens
http://aps.mai.gov.ro
State Department Visa Website
http://travel.state.gov/visa/index.html
United States Visas.gov
http://www.unitedstatesvisas.gov
U.S. Embassy in Bucharest
http://bucharest.usembassy.gov/main.html
Ministry of Communications and Information Technology
http://www.mcti.ro
Ministry of Transports, Constructions and Tourism
http://www.mt.ro
Ministry of Health
http://www.ms.ro
National Customs Authority
http://www.customs.ro/vami_en/Main

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Chapter 9: Contacts, Market Research, and Trade Events

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US Commercial Service
Office of International Operations
Molly Costa, Deputy Regional Director
Phyllis Bradley, Country Manager
US Department of Commerce - Room 3130
14th and Constitution Avenue, N.W.
Washington, DC 20230
Tel. (202) 482-1599; Fax: (202) 482-2456
Website: http://www.export.gov/comm_svc/index.html

Market Access and Compliance
Central and Eastern Europe Division
Jonathan Kimball, Director (Room 3319)
Kristin Najdi, Romania Desk Officer
Tel. (202) 482-4915; Fax: (202) 482-4505
US Department of Commerce
14th and Constitution Avenue, N.W.
Washington, DC 20230
Website: http://www.mac.doc.gov

U.S. Department of State
William Silkworth, Country Officer for Romania
U.S. Department of State - Room 5220
2201 C St., N.W.
Washington D.C. 20520
Tel. (202) 647-4272; Fax: (202) 736-4853
E-mail: silkworthwr2@state.gov
Website: http://www.state.gov

U.S. Department of Agriculture
Foreign Agricultural Service
Trade Assistance and Promotion Office
Tel. (202) 720-7420
Website: http://www.usda.gov

U.S. Trade and Development Agency
Dan Stein, Regional Director, Europe
Andrea Lupo, Country Manager

U.S. Trade and Development Agency
Washington, D.C. 20523-1602
Tel. (703) 875-4357; Fax: (703) 875-4009
Website: http://www.tda.gov

Export-Import Bank of the United States
Margaret Kostic, Int'l Business Development Officer
811 Vermont Avenue, N.W.
Washington, D.C. 20571
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Mr. Bryan W. Dalton, Consul General
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Ms. Kathleen Kavalec, Cultural Officer
Mr. John Rodgers, Economic Officer
Mrs. Joyce E. Currie, Management Officer
Mrs. Margaret C. Sula, Budget and Fiscal Officer
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Market Research **Return to top**

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Please click on the link below for information on upcoming trade events.

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/romania

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